APPENDIX I

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

CORRECTED CONSOLIDATED BALANCE SHEET
June 30, 1996
(Dollars in Thousands)

	As Reported	Adjustments	Corrected
ASSETS			
Current assets:			
Cash and cash equivalents	1,539	-	1,539
Short-term investments	11,230	-	11,230
Assets limited or restricted as to use	48,814	3,902	52,716
Receivables:			-
Patient accounts, less allowance for uncollectible accounts of $ 108,273	320,059	(25,385)	294,674
Grants and other	44,907	(7,082)	37,825
Inventories	22,828	587	23,415
Prepaid expenses	15,535	-	15,535
		-	-
Total current assets	464,912	(27,978)	436,934
Assets limited or restricted as to use, net of current portion	562,804	3,180	565,984
Property and equipment, net	741,430	(3,443)	737,987
Other assets	100,308	(6,033)	94,275
		-	-
Total assets	1,869,454	(34,274)	1,835,180
		-1.8%	
LIABILITIES AND NET ASSETS			
Current liabilities:			
Accounts payable and accrued expenses	239,187	(11)	239,176
Deferred revenue	10,186	447	10,633
Lines of credit	40,300	-	40,300
Current portion of long-term debt	8,809	406,450	415,259
		-	-
Total current liabilities	298,482	406,886	705,368
Long-term debt, net of current portion	663,971	(406,450)	257,521
Self-insurance liabilities	78,001	-	78,001
Other noncurrent liabilities	58,218	6,253	64,471
		-	-
Total liabilities	1,098,672	6,689	1,105,361
Net assets:			
Unrestricted			
Opening balance (A)	567,243	40,002	607,245
Current year net income (loss)	(11,837)	(96,384)	(108,221)
Other changes, net	3,830	(29,714)	(25,884)
Unrestricted-ending	559,236	(86,096)	473,140
		-15.4%	
Restricted:			
Temporarily	108,954	(52,527)	56,427
Permanently	102,592	97,660	200,252
Total net assets	770,782	(40,963)	729,819
		-5.3%	
Total liabilities and net assets	1,869,454	(34,274)	1,835,180

(A) The opening balance was derived from the reported ending balance, and reflects the effects of restatements made by AHERF of its July 1, 1995 opening balances.

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

CORRECTED CONSOLIDATING BALANCE SHEET

AS OF JUNE 30, 1996

	AGH (consolidated), as Reported	Adjustments	Corrected	Allegheny University of the H.S., as Reported	Adjustments	Corrected	Allegheny University Hospitals, as Reported	Adjustments	Corrected	St. Christopher's, as Reported	Adjustments	Corrected	AIHG, as Reported	Adjustments	Corrected	AHERF OPS, as Reported	Adjustments	Corrected	Elimination Entries, as Reported	Adjustments	Corrected	Consolidated AHERF, as Reported	Adjustments	Corrected
ASSETS																								
Current assets:																								
Cash and cash equivalents	2,447		2,447	748	-	748	11,591	-	11,591	14,943	-	14,943	93		93	(28,283)		(28,283)	-		-	1,539	-	1,539
Short-term investments	11,394		11,394	-	-	-	-	-	-	-	-	-	387		387	(551)		(551)	-		-	11,230	-	11,230
Assets limited or restricted as to use	3,957		3,957	12,203	-	12,203	9,893	-	9,893	1,943	-	1,943	-		-	20,818	3,902	24,720	-		-	48,814	3,902	52,716
Receivables:			-		-	-		-			-											-	-	
Patient accounts, net	50,036	7,111	57,147	33,965	-	33,965	175,284	(22,644)	152,640	43,319	(9,344)	33,975	17,455	(508)	16,947	-		-	-		-	320,059	(25,385)	294,674
Grants and other	5,077		5,077	23,563	-	23,563	4,703	-	4,703	9,953	-	9,953	381		381	1,916	(7,082)	(5,166)	(686)		(686)	44,907	(7,082)	37,825
Inventories	10,045		10,045	-	-	-	10,910	587	11,497	1,839	-	1,839	34		34	-		-	-		-	22,828	587	23,415
Prepaid expenses	839		839	259	-	259	2,706	-	2,706	415	-	415	358		358	10,286		10,286	672		672	15,535	-	15,535
Due from affiliates	-	7,104	7,104	-	-	-	-	28	28	-	-	-	-		-	36,100	(4,104)	31,996	(36,100)	(3,028)	(39,128)	-	-	-
Total current assets	83,795	14,215	98,010	70,738	-	70,738	215,087	(22,029)	193,058	72,412	(9,344)	63,068	18,708	(508)	18,200	40,286	(7,284)	33,002	(36,114)	(3,028)	(39,142)	464,912	(27,978)	436,934
Assets limited or restricted as to use, net of current portion	181,691		181,691	100,410	-	100,410	33,690	-	33,690	23,672	-	23,672	-		-	223,601	3,180	226,781	(260)		(260)	562,804	3,180	565,984
Property and equipment, net	248,747	(1,243)	247,504	63,831	(1,706)	62,125	291,990	(494)	291,496	64,124	-	64,124	15,642		15,642	57,510		57,510	(414)		(414)	741,430	(3,443)	737,987
Other assets	25,760	(518)	25,242	3,843	-	3,843	16,278	(752)	15,526	3,032	-	3,032	22,400	(381)	22,019	28,994	(4,382)	24,612	1		1	100,308	(6,033)	94,275
Due from affiliates	26,369		26,369	-	-	-	19,025	(5,219)	13,806	120	-	120	-		-	79,943		79,943	(125,457)	5,219	(120,238)	-	-	-
Total assets	566,362	12,454	578,816	238,822	(1,706)	237,116	576,070	(28,494)	547,576	163,360	(9,344)	154,016	56,750	(889)	55,861	430,334	(8,486)	421,848	(162,244)	2,191	(160,053)	1,869,454	(34,274)	1,835,180
LIABILITIES AND NET ASSETS																								
Current liabilities:																								
Accounts payable and accrued expenses	54,044	(1,091)	52,953	24,226	(52)	24,174	69,476	(339)	69,137	24,906	(74)	24,832	5,774		5,774	60,795	1,545	62,340	(34)		(34)	239,187	(11)	239,176
Deferred revenue	3,717	447	4,164	11,536	-	11,536	1,190	-	1,190	597	-	597	-		-	-		-	(6,854)		(6,854)	10,186	447	10,633
Lines of credit	-		-	6,000	-	6,000	34,300	-	34,300	-	-	-	-		-	-		-	-		-	40,300	-	40,300
Current portion of long-term debt (A)	7,023		7,023	-	36,045	36,045	690	323,005	323,695	-	47,400	47,400	1,096		1,096	-		-	-		-	8,809	406,450	415,259
Due to affiliates	-		-	-	1,437	1,437	16,921	(3,034)	13,887	4,468	(744)	3,724	-		-	1,216		1,216	(22,605)	2,341	(20,264)	-	-	-
Total current liabilities	64,784	(644)	64,140	41,762	37,430	79,192	122,577	319,632	442,209	29,971	46,582	76,553	6,870	-	6,870	62,011	1,545	63,556	(29,493)	2,341	(27,152)	298,482	406,886	705,368
Long-Term debt, net of current portion (A)	257,521		257,521	36,045	(36,045)	-	323,005	(323,005)	-	47,400	(47,400)	-	-		-	-		-	-		-	663,971	(406,450)	257,521
Self-Insurance liabilities	-		-	4,900	-	4,900	4,530	-	4,530	-	-	-	-		-	68,571		68,571	-		-	78,001	-	78,001
Other noncurrent liabilities	1,858	6,253	8,111	19,524	-	19,524	169	-	169	206	-	206	-		-	37,535		37,535	(1,074)		(1,074)	58,218	6,253	64,471
Due to affiliates	-		-	40,273	(325)	39,948	39,669	407	40,076	-	68	68	12,806		12,806	45,514		45,514	(138,262)	(150)	(138,412)	-	-	-
Total liabilities	324,163	5,609	329,772	142,504	1,060	143,564	489,950	(2,966)	486,984	77,577	(750)	76,827	19,676	-	19,676	213,631	1,545	215,176	(168,829)	2,191	(166,638)	1,098,672	6,689	1,105,361
Net assets:																								
Unrestricted																								
Opening balance (B)	234,060	9,131	243,191	25,421	844	26,265	125,844	25,137	150,981	71,941	3,097	75,038	11,163		11,163	78,632	1,793	80,425	20,182		20,182	567,243	40,002	607,245
Current year net income (loss)	6,321	(2,286)	4,035	(4,702)	(3,610)	(8,312)	(7,677)	(50,665)	(58,342)	11,088	(11,691)	(603)	(40,875)	(889)	(41,764)	24,109	(27,243)	(3,134)	(101)		(101)	(11,837)	(96,384)	(108,221)
Other changes, net	(12,505)	-	(12,505)	(5,203)	-	(5,203)	(56,474)	-	(56,474)	(9,313)	-	(9,313)	66,786		66,786	17,378	(29,714)	(12,336)	3,161		3,161	3,830	(29,714)	(25,884)
Unrestricted-ending	227,876	6,845	234,721	15,516	(2,766)	12,750	61,693	(25,528)	36,165	73,716	(8,594)	65,122	37,074	(889)	36,185	120,119	(55,164)	64,955	23,242		23,242	559,236	(86,096)	473,140
Restricted:									-															
Temporarily	6,773	-	6,773	33,535	-	33,535	7,566	-	7,566	8,952	-	8,952	-		-	52,788	(52,527)	261	(660)		(660)	108,954	(52,527)	56,427
Permanently	7,550	-	7,550	47,267	-	47,267	16,861	-	16,861	3,115	-	3,115	-		-	43,796	97,660	141,456	(15,997)		(15,997)	102,592	97,660	200,252
Total net assets	242,199	6,845	249,044	96,318	(2,766)	93,552	86,120	(25,528)	60,592	85,783	(8,594)	77,189	37,074	(889)	36,185	216,703	(10,031)	206,672	6,585	-	6,585	770,782	(40,963)	729,819
Total liabilities and net assets	566,362	12,454	578,816	238,822	(1,706)	237,116	576,070	(28,494)	547,576	163,360	(9,344)	154,016	56,750	(889)	55,861	430,334	(8,486)	421,848	(162,244)	2,191	(160,053)	1,869,454	(34,274)	1,835,180

(A) As of June 30, 1996, DVOG debt was in technical default of debt service coverage ratios in its PHEFA debt instruments based on the corrected financial statements. It is unknown whether the PHEFA note guarantors would have granted waivers if they had been informed timely of the debt covenant violations. Since the debt instruments grant the guarantors the right to accelerate the payment of the debt in the event of a default, and since the loan instruments state that debt covenant violations that are not cured are events of default, a strict interpretation of GAAP requires the debt to be reflected as current.

(B) The opening balance was derived from the reported ending balance, and reflects the effects of restatements made by AHERF of its July 1, 1995 opening balances.

DELAWARE VALLEY OBLIGATED GROUP
CORRECTED COMBINING BALANCE SHEET
AS OF JUNE 30, 1996
(Dollars in Thousands)

	Allegheny East Falls Hospital, as Reported	Adjustments	Corrected	Allegheny Elkins Park Hospital, as Reported	Adjustments	Corrected	Allegheny Bucks County Hospital, as Reported	Adjustments	Corrected	Allegheny Center City Hospital, as Reported	Adjustments	Corrected	Mgmt Support Services, as Reported	Adjustments	Corrected
ASSETS															
Current assets:															
Cash and cash equivalents	4,215		4,215	1,039		1,039	1,070		1,070	5,068		5,068	199		199
Short-term investments						-			-			-			-
Assets limited or restricted as to use	1,457		1,457	-		-	-		-	8,426		8,426	10		10
Receivables:						-			-			-			-
Patient accounts, net	58,450	(8,682)	49,768	21,288	(6,697)	14,591	17,012	(5,317)	11,695	78,534	(1,948)	76,586	-		-
Grants and other	1,936		1,936	177		177	43		43	2,483		2,483	57		57
Inventories	2,909		2,909	666		666	577		577	6,549	587	7,136	209		209
Prepaid expenses	803		803	191		191	341		341	1,237		1,237	134		134
Due from affiliates	-		-	-	28	28	-		-	7		7	-		-
Total current assets	69,770	(8,682)	61,088	23,361	(6,669)	16,692	19,043	(5,317)	13,726	102,304	(1,361)	100,943	609	-	609
Assets limited or restricted as to use, net of current portion	5,383		5,383	25		25	-		-	28,282		28,282	-		-
Property and equipment, net	70,452	(494)	69,958	25,349		25,349	19,035		19,035	167,816		167,816	9,338	-	9,338
Other assets	7,033		7,033	981		981	1,321	(752)	569	6,929		6,929	14		14
Due from affiliates	-		-	-		-	-		-	13,615	(5,694)	7,921	5,410	475	5,885
Total assets	152,638	(9,176)	143,462	49,716	(6,669)	43,047	39,399	(6,069)	33,330	318,946	(7,055)	311,891	15,371	475	15,846
LIABILITIES AND NET ASSETS															
Current liabilities:															
Accounts payable and accrued expenses (incl. current self-insurance liabilities)	22,071	(14)	22,057	5,396	80	5,476	4,187	(320)	3,867	33,845	(199)	33,646	3,977	114	4,091
Deferred revenue	208		208	-		-	-		-	982		982	-		-
Lines of credit	11,000		11,000	-		-	-		-	11,000		11,000	12,300		12,300
Current portion of long-term debt (B)	-		-	-		-	616		616	74		74	-		-
Due to affiliates	12,921	(785)	12,136	2,000	(2,000)	-	2,000	(249)	1,751	-		-	-		-
Total current liabilities	46,200	(799)	45,401	7,396	(1,920)	5,476	6,803	(569)	6,234	45,901	(199)	45,702	16,277	114	16,391
Long-Term debt, net of current portion (B)	59,209		59,209	60,841		60,841	20,317		20,317	182,638		182,638	-		-
Self-Insurance liabilities	-		-	-		-	-		-	4,530		4,530	-		-
Other noncurrent liabilities	-		-	51		51	74		74	-		-	44		44
Due to affiliates	-		-	23,584	305	23,889	16,085	102	16,187	-		-	-		-
Total liabilities	105,409	(799)	104,610	91,872	(1,615)	90,257	43,279	(467)	42,812	233,069	(199)	232,870	16,321	114	16,435
Net assets:															
Unrestricted															
Opening balance (C)	63,068	3,405	66,473	(28,165)	2,191	(25,974)	5,242	830	6,072	86,717	18,236	104,953	(1,018)	475	(543)
Current year net income (loss)	1,429	(11,782)	(10,353)	(3,640)	(7,245)	(10,885)	411	(6,432)	(6,021)	(5,877)	(25,092)	(30,969)	-	(114)	(114)
Other changes, net	(20,212)		(20,213)	(10,554)		(10,554)	(9,557)		(9,557)	(16,220)		(16,220)	69		69
Unrestricted-ending	44,285	(8,377)	35,908	(42,359)	(5,054)	(47,413)	(3,904)	(5,602)	(9,506)	64,620	(6,856)	57,764	(949)	361	(588)
			-												
Restricted:															
Temporarily	1,489		1,489	203		203	24		24	5,851		5,851	(1)		(1)
Permanently	1,455		1,455	-		-			-	15,406		15,406	-		-
Total net assets	47,229	(8,377)	38,852	(42,156)	(5,054)	(47,210)	(3,880)	(5,602)	(9,482)	85,877	(6,856)	79,021	(950)	361	(589)
Total liabilities and net assets	152,638	(9,176)	143,462	49,716	(6,669)	43,047	39,399	(6,069)	33,330	318,946	(7,055)	311,891	15,371	475	15,846

	Total Allegheny University Hospitals, as Reported	Adjustments	Corrected	St. Christopher's, as Reported	Adjustments	Corrected	Allegheny University of the H.S., as Reported	Adjustments	Corrected	Eliminations, as Reported	RWB Debt Reclassification Adjustment (B)	Corrected	Combined DVOG, as Reported	Adjustments	Corrected
ASSETS															
Current assets:															
Cash and cash equivalents	11,591	-	11,591	14,943		14,943	748		748	-		-	27,282	-	27,282
Short-term investments		-	-			-			-			-	-	-	-
Assets limited or restricted as to use	9,893	-	9,893	1,943		1,943	12,203		12,203	-		-	24,039	-	24,039
Receivables:		-	-			-			-			-	-	-	-
Patient accounts, net	175,284	(22,644)	152,640	43,319	(9,344)	33,975	33,965		33,965	-		-	252,568	(31,988)	220,580
Grants and other	4,696	-	4,696	9,953		9,953	23,257		23,257	-		-	37,906	-	37,906
Inventories	10,910	587	11,497	1,839		1,839	-		-			-	12,749	587	13,336
Prepaid expenses	2,706	-	2,706	415		415	259		259			-	3,380	-	3,380
Due from affiliates	7	28	35	-		-	306		306	(313)		(313)	-	28	28
Total current assets	215,087	(22,029)	193,058	72,412	(9,344)	63,068	70,738	-	70,738	(313)	-	(313)	357,924	(31,373)	326,551
Assets limited or restricted as to use, net of current portion	33,690	-	33,690	23,672		23,672	100,410		100,410	-		-	157,772	-	157,772
Property and equipment, net	291,990	(494)	291,496	64,124		64,124	63,831	(1,706)	62,125	-		-	419,945	(2,200)	417,745
Other assets	16,278	(752)	15,526	3,032		3,032	3,843		3,843	-		-	23,153	(752)	22,401
Due from affiliates	19,025	(5,219)	13,806	120		120	-		-	(19,145)		(19,145)	-	(5,219)	(5,219)
Total assets	576,070	(28,494)	547,576	163,360	(9,344)	154,016	238,822	(1,706)	237,116	(19,458)	-	(19,458)	958,794	(39,544)	919,250
														-4.1%	
LIABILITIES AND NET ASSETS															
Current liabilities:															
Accounts payable and accrued expenses (incl. current self-insurance liabilities)	69,476	(339)	69,137	24,906	(74)	24,832	24,226	(52)	24,174	-		-	118,608	(465)	118,143
Deferred revenue	1,190	-	1,190	597		597	11,536		11,536	-		-	13,323	-	13,323
Lines of credit	34,300	-	34,300	-		-	6,000		6,000	-		-	40,300	-	40,300
Current portion of long-term debt (B)	690	-	690	-		-	-		-	-	406,450	406,450	690	406,450	407,140
Due to affiliates	16,921	(3,034)	13,887	4,468	(744)	3,724	-	1,437	1,437	(313)		(313)	21,076	(2,341)	18,735
Total current liabilities	122,577	(3,373)	119,204	29,971	(818)	29,153	41,762	1,385	43,147	(313)	406,450	406,137	193,997	403,644	597,641
Long-Term debt, net of current portion (B)	323,005	-	323,005	47,400		47,400	36,045		36,045	-	(406,450)	(406,450)	406,450	(406,450)	-
Self-Insurance liabilities	4,530	-	4,530	-		-	4,900		4,900	-		-	9,430	-	9,430
Other noncurrent liabilities	169	-	169	206		206	19,524		19,524	-		-	19,899	-	19,899
Due to affiliates	39,669	407	40,076	-	68	68	40,273	(325)	39,948	(19,145)		(19,145)	60,797	150	60,947
Total liabilities	489,950	(2,966)	486,984	77,577	(750)	76,827	142,504	1,060	143,564	(19,458)	-	(19,458)	690,573	(2,656)	687,917
Net assets:															
Unrestricted															
Opening balance (C)	125,844	25,137	150,981	71,941	3,097	75,038	25,421	844	(3,858)	-		-	223,206	29,078	252,284
Current year net income (loss)	(7,677)	(50,665)	(58,342)	11,088	(11,691)	(603)	(4,702)	(3,610)	(8,813)	-		-	(1,291)	(65,966)	(67,257)
Other changes, net	(56,474)	-	(56,474)	(9,313)		(9,313)	(5,203)		(5,203)	-		-	(70,990)	-	(70,990)
Unrestricted-ending	61,693	(25,528)	36,165	73,716	(8,594)	65,122	15,516	(2,766)	12,750	-	-	-	150,925	(36,888)	114,037
		-							-					-24.4%	
Restricted:		-							-						
Temporarily	7,566	-	7,566	8,952		8,952	33,535		33,535	-		-	50,053	-	50,053
Permanently	16,861	-	16,861	3,115		3,115	47267		47,267	-		-	67,243	-	67,243
Total net assets	86,120	(25,528)	60,592	85,783	(8,594)	77,189	96,318	(2,766)	93,552	-	-	-	268,221	(36,888)	231,333
														-13.8%	
Total liabilities and net assets	576,070	(28,494)	547,576	163,360	(9,344)	154,016	238,822	(1,706)	237,116	(19,458)	-	(19,458)	958,794	(39,544)	919,250

(A) Conformed to the AHERF Consolidating Balance Sheet presentation with respect to the order of presentation and to the inclusion of the current portion of self-insurance liabilities in Accounts payable and accrued expenses

(B) As of June 30, 1996, DVOG debt was in technical default of debt service coverage ratios in its PHEFA debt instruments based on the corrected financial statements. It is unknown whether the PHEFA note guarantors would have granted waivers if they had been informed of the debt covenant violations. Since the debt instruments grant the guarantors the right to accelerate the payment of the debt in the event of a default, and since the loan instruments state that debt covenant violations that are not cured are events of default, a strict interpretation of GAAP requires the debt to be reflected as current

(C) The opening balance was derived from the reported ending balance, and reflects the effects of restatements made by AHERF of its July 1, 1995 opening balances.

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION
CORRECTED CONSOLIDATED STATEMENT OF OPERATIONS
For the year ended June 30, 1996
(Dollars in Thousands)

	As Reported	Adjustments	Corrected
Unrestricted revenues, gains and other support:			
Net patient service revenue	1,352,474	(21,684)	1,330,790
Research and training support	57,079	(3,937)	53,142
Academic activities	62,916	-	62,916
Investment income	74,075	(16,096)	57,979
Net assets released from restrictions used for operations	18,916	(4,478)	14,438
Other revenue	41,747	(6,700)	35,047
Total revenues, gains and other support	1,607,207	(52,895)	1,554,312
		-3.3%	
Expenses:			
Salaries, wages and fringe benefits	959,854	2,157	962,011
Materials, supplies and services	498,941	41,959	540,900
Depreciation and amortization	95,371	(35)	95,336
Interest	40,957	(592)	40,365
Unusual items	5,537	-	5,537
Total expenses	1,600,660	43,489	1,644,149
		2.7%	
Net income before extraordinary item and change in accounting principles	6,547	(96,384)	(89,837)
		-1472%	
Extraordinary loss on early extinquishment of debt	(32,534)	-	(32,534)
Income from change in accounting principles	14,150	-	14,150
Net loss	(11,837)	(96,384)	(108,221)
		-814%	
Net assets released from restrictions used for acquisition of property and equipment	2,806	-	2,806
Transfers from other net assets	971	-	971
Other	53	-	53
Decrease in unrestricted net assets	(8,007)	(96,384)	(104,391)
		-1204%	

Appendix I

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION
CORRECTED CONSOLIDATING STATEMENT OF OPERATIONS
For the year ended June 30, 1996
(Dollars in Thousands)

	AGH (consolidated), as Reported	Adjustments	Corrected	Allegheny University of the H.S., as Reported	Adjustments	Corrected	Allegheny University Hospitals, as Reported	Adjustments	Corrected	St. Christopher's, as Reported	Adjustments	Corrected	AIHG, as Reported	Adjustments	Corrected	AHERF OPS, as Reported	Adjustments	Corrected	Elimination Entries, as Reported	Adjustments	Corrected	Consolidated AHERF, as Reported	Adjustments	Consolidated AHERF, as Corrected
Unrestricted revenues, gains and other support:																								
Net patient service	394,561		394,561	131,453	-	131,453	618,214	(22,298)	595,916	134,149	614	134,763	74,097		74,097	-		-	-		-	1,352,474	(21,684)	1,330,790
Research and training support	8,789		8,789	43,347	(3,937)	39,410	5,868	-	5,868	2,231	-	2,231	-		-	-		-	(3,156)		(3,156)	57,079	(3,937)	53,142
Academic activities	-		-	61,970	-	61,970	154	-	154	792	-	792	-		-	-		-	-		-	62,916	-	62,916
Investment income/(loss)	23,291		23,291	3,437	-	3,437	10,952	(3,891)	7,061	3,199	(1,264)	1,935	(368)		(368)	33,564	(10,941)	22,623	-		-	74,075	(16,096)	57,979
Net assets released from restrictions used for operations	8,518		8,518	4,837	-	4,837	600	-	600	4,961	-	4,961	-		-	-	(4,478)	(4,478)	-		-	18,916	(4,478)	14,438
Other revenue	23,981	(6,700)	17,281	70,754	-	70,754	18,920	-	18,920	7,355	-	7,355	2,375		2,375	21,276		21,276	(102,914)		(102,914)	41,747	(6,700)	35,047
Total revenues, gains and other support	459,140	(6,700)	452,440	315,798	(3,937)	311,861	654,708	(26,189)	628,519	152,687	(650)	152,037	76,104	-	76,104	54,840	(15,419)	39,421	(106,070)	-	(106,070)	1,607,207	(52,895)	1,554,312
Expenses:																								
Salaries, wages and fringe benefits	204,513	325	204,838	204,456	-	204,456	325,966	877	326,843	67,223	219	67,442	84,861		84,861	72,840	736	73,576	(5)		(5)	959,854	2,157	962,011
Materials, supplies and services	201,662	(4,357)	197,305	104,787	(327)	104,460	255,784	23,707	279,491	60,774	10,822	71,596	27,394	508	27,902	(45,559)	11,606	(33,953)	(105,901)		(105,901)	498,941	41,959	540,900
Depreciation and amortization	33,284	210	33,494	6,950	-	6,950	36,974	(108)	36,866	6,415	-	6,415	4,615	381	4,996	7,133	(518)	6,615	-		-	95,371	(35)	95,336
Interest	13,927	(592)	13,335	2,543	-	2,543	20,833	-	20,833	3,608	-	3,608	109		109	-		-	(63)		(63)	40,957	(592)	40,365
Unusual items	3,149		3,149	-	-	-	-	-	-	-	-	-	-		-	2,388		2,388	-		-	5,537	-	5,537
Total expenses	456,535	(4,414)	452,121	318,736	(327)	318,409	639,557	24,476	664,033	138,020	11,041	149,061	116,979	889	117,868	36,802	11,824	48,626	(105,969)	-	(105,969)	1,600,660	43,489	1,644,149
Net income/(loss), before extraordinary item and change in accounting principles	2,605	(2,286)	319	(2,938)	(3,610)	(6,548)	15,151	(50,665)	(35,514)	14,667	(11,691)	2,976	(40,875)	(889)	(41,764)	18,038	(27,243)	(9,205)	(101)		(101)	6,547	(96,384)	(89,837)
Extraordinary loss on early extinguishment of debt			-	(2,908)	-	(2,908)	(25,282)	-	(25,282)	(4,344)	-	(4,344)	-		-	-		-	-		-	(32,534)	-	(32,534)
Income from change in accounting principles	3,716		3,716	1,144	-	1,144	2,454	-	2,454	765	-	765	-		-	6,071		6,071	-		-	14,150	-	14,150
			-			-			-			-			-			-			-			-
Net Income/(loss)	6,321	(2,286)	4,035	(4,702)	(3,610)	(8,312)	(7,677)	(50,665)	(58,342)	11,088	(11,691)	(603)	(40,875)	(889)	(41,764)	24,109	(27,243)	(3,134)	(101)	-	(101)	(11,837)	(96,384)	(108,221)
			-			-			-			-			-			-			-			-
Net assets released from restrictions used for acquisition of property and equipment	1,091		1,091	1,481	-	1,481	99	-	99	135	-	135	-		-	-		-	-		-	2,806	-	2,806
Transfers (to)/from other net assets	-		-	(401)	-	(401)	78	-	78	1,294	-	1,294	-		-	-		-	-		-	971	-	971
Other	562		562	-	-	-	-	-	-	-	-	-	-		-	(400)		(400)	(109)		(109)	53	-	53
Transfers (to)/from affiliates, net	(14,158)		(14,158)	(6,283)	-	(6,283)	(56,651)	-	(56,651)	(10,742)	-	(10,742)	66,786		66,786	17,778		17,778	3,270		3,270	-	-	-
Increase/(decrease) in unrestricted net assets	(6,184)	(2,286)	(8,470)	(9,905)	(3,610)	(13,515)	(64,151)	(50,665)	(114,816)	1,775	(11,691)	(9,916)	25,911	(889)	25,022	41,487	(27,243)	14,244	3,060	-	3,060	(8,007)	(96,384)	(104,391)

DELAWARE VALLEY OBLIGATED GROUP
CORRECTED COMBINING STATEMENT OF OPERATIONS
For the year ended June 30, 1996
(Dollars in Thousands)

	Allegheny East Falls Hospital, as Reported	Adjustments	Corrected	Allegheny Elkins Park Hospital, as Reported	Adjustments	Corrected	Allegheny Bucks County Hospital, as Reported	Adjustments	Corrected	Allegheny Center City Hospital, as Reported	Adjustments	Corrected	Mgmt Support Services, as Reported	Adjustments	Corrected
Unrestricted revenues, gains and other support:															
Net patient service	189,993	(3,157)	186,836	57,798	(667)	57,131	47,953	(591)	47,362	322,470	(17,883)	304,587	-		-
Research and training support	2,242		2,242	-		-	-		-	3,626		3,626	-		-
Academic activities	3		3	114		114	13		13	-		-	24		24
Investment income/(loss)	4,460	(3,562)	898	192		192	78		78	6,472	(329)	6,143	(250)		(250)
Net assets released from restrictions used for operations	540		540	3		3	-		-	57		57	-		-
Other revenue	7,524		7,524	667		667	802		802	6,566		6,566	3,361		3,361
Total revenues, gains and other support	204,762	(6,719)	198,043	58,774	(667)	58,107	48,846	(591)	48,255	339,191	(18,212)	320,979	3,135	-	3,135
Expenses:															
Salaries, wages and fringe benefits	100,430	219	100,649	26,714	219	26,933	21,851	219	22,070	160,741	220	160,961	16,230		16,230
Materials, supplies and services	88,907	4,844	93,751	21,029	6,359	27,388	19,779	5,424	25,203	144,626	6,966	151,592	(18,557)	114	(18,443)
Depreciation and amortization	6,930		6,930	3,276		3,276	2,806	198	3,004	18,500	(306)	18,194	5,462		5,462
Interest	3,376		3,376	5,102		5,102	1,901		1,901	10,454		10,454	-		-
Unusual items			-			-			-			-			-
Total expenses	199,643	5,063	204,706	56,121	6,578	62,699	46,337	5,841	52,178	334,321	6,880	341,201	3,135	114	3,249
Net income/(loss), before extraordinary item and change in accounting principles	5,119	(11,782)	(6,663)	2,653	(7,245)	(4,592)	2,509	(6,432)	(3,923)	4,870	(25,092)	(20,222)	-	(114)	(114)
Extraordinary loss on early extinguishment of debt	(3,716)		(3,716)	(6,550)		(6,550)	(2,186)		(2,186)	(12,830)		(12,830)	-		-
Income from change in accounting principles	26		26	257		257	88		88	2,083		2,083	-		-
Net Income/(loss)	1,429	(11,782)	(10,353)	(3,640)	(7,245)	(10,885)	411	(6,432)	(6,021)	(5,877)	(25,092)	(30,969)	-	(114)	(114)
Net assets released from restrictions used for acquisition of property and equipment	(2)		(2)	101		101	-		-	-		-	-		-
Transfers (to)/from other net assets	77		77	-		-	-		-	-		-	1		1
Other	-		-	-		-			-			-			-
Transfers (to)/from affiliates, net	(20,287)		(20,287)	(10,655)		(10,655)	(9,557)		(9,557)	(16,220)		(16,220)	68		68
Increase/(decrease) in unrestricted net assets	(18,783)	(11,782)	(30,565)	(14,194)	(7,245)	(21,439)	(9,146)	(6,432)	(15,578)	(22,097)	(25,092)	(47,189)	69	(114)	(45)

	Combined Allegheny University Hospitals, as Reported	Adjustments	Corrected	St. Christopher's, as Reported	Adjustments	Corrected	Allegheny University of the H.S., as Reported	Adjustments	Corrected	Eliminations, as Reported	Adjustments	Corrected	Combined DVOG, as Reported	Adjustments	Combined DVOG, as Corrected
Unrestricted revenues, gains and other support:															
Net patient service	618,214	(22,298)	595,916	134,149	614	134,763	131,453		131,453	-		-	883,816	(21,684)	862,132
Research and training support	5,868	-	5,868	2,231		2,231	43,347	(3,937)	39,410	-		-	51,446	(3,937)	47,509
Academic activities	154	-	154	792		792	61,970		61,970	-		-	62,916	-	62,916
Investment income/(loss)	10,952	(3,891)	7,061	3,199	(1,264)	1,935	3,437		3,437	-		-	17,588	(5,155)	12,433
Net assets released from restrictions used for operations	600	-	600	4,961		4,961	4,837		4,837	-		-	10,398	-	10,398
Other revenue	18,920	-	18,920	7,355		7,355	70,754		70,754	(47,030)		(47,030)	49,999	-	49,999
Total revenues, gains and other support	654,708	(26,189)	628,519	152,687	(650)	152,037	315,798	(3,937)	311,861	(47,030)	-	(47,030)	1,076,163	(30,776)	1,045,387
														-2.86%	
Expenses:															
Salaries, wages and fringe benefits	325,966	877	326,843	67,223	219	67,442	204,456		204,456	-		-	597,645	1,096	598,741
Materials, supplies and services	255,784	23,707	279,491	60,774	10,822	71,596	104,787	(327)	104,460	(47,030)		(47,030)	374,315	34,202	408,517
Depreciation and amortization	36,974	(108)	36,866	6,415		6,415	6,950		6,950	-		-	50,339	(108)	50,231
Interest	20,833	-	20,833	3,608		3,608	2,543		2,543	-		-	26,984	-	26,984
Unusual items	-	-	-			-			-			-	-	-	-
Total expenses	639,557	24,476	664,033	138,020	11,041	149,061	318,736	(327)	318,409	(47,030)	-	(47,030)	1,049,283	35,190	1,084,473
														3.35%	
Net income/(loss), before extraordinary item and change in accounting principles	15,151	(50,665)	(35,514)	14,667	(11,691)	2,976	(2,938)	(3,610)	(6,548)	-	-	-	26,880	(65,966)	(39,086)
														-245.41%	
Extraordinary loss on early extinguishment of debt	(25,282)	-	(25,282)	(4,344)		(4,344)	(2,908)		(2,908)	-		-	(32,534)	-	(32,534)
Income from change in accounting principles	2,454	-	2,454	765		765	1,144		1,144	-		-	4,363	-	4,363
Net Income/(loss)	(7,677)	(50,665)	(58,342)	11,088	(11,691)	(603)	(4,702)	(3,610)	(8,312)	-	-	-	(1,291)	(65,966)	(67,257)
														-5109.68%	
Net assets released from restrictions used for acquisition of property and equipment	99	-	99	135		135	1,481		1,481			-	1,715	-	1,715
Transfers (to)/from other net assets	78	-	78	1,294		1,294	(401)		(401)	-		-	971	-	971
Other		-	-			-			-	-		-	-	-	-
Transfers (to)/from affiliates, net	(56,651)	-	(56,651)	(10,742)		(10,742)	(6,283)		(6,283)	-		-	(73,676)	-	(73,676)
Increase/(decrease) in unrestricted net assets	(64,151)	(50,665)	(114,816)	1,775	(11,691)	(9,916)	(9,905)	(3,610)	(13,515)	-	-	-	(72,281)	(65,966)	(138,247)
														-91.26%	

APPENDIX II

APPENDIX II

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION
CORRECTED CONSOLIDATED BALANCE SHEET
as of June 30, 1997
(Dollars in Thousands)

	As Reported	Adjustments	Corrected
ASSETS			
Current assets:			
Cash and cash equivalents	20,516	-	20,516
Short-term investments	3,804	-	3,804
Assets limited or restricted as to use	73,922	-	73,922
Receivables:			
Patient accounts, less allowance for uncollectible accounts of $127,932	367,061	(13,354)	353,707
Grants and other	92,119	-	92,119
Inventories	33,466	-	33,466
Prepaid expenses	15,168	-	15,168
Total current assets	606,056	(13,354)	592,702
Assets limited or restricted as to use, net of current portion	780,821	16,652	797,473
Property and equipment, net	920,870	(71,097)	849,773
Other assets	315,933	(55,224)	260,709
		-	
Total assets	2,623,680	(123,023)	2,500,657
		-4.7%	
LIABILITIES AND NET ASSETS			-
Current liabilities:			-
Accounts payable and accrued expenses	489,522	(10,181)	479,341
Deferred revenue	16,373	447	16,820
Lines of credit	57,100	-	57,100
Current portion of long-term debt	34,704	802,957	837,661
Total current liabilities	597,699	793,223	1,390,922
Long-term debt, net of current portion	960,273	(802,957)	157,316
Self-insurance liabilities	91,841	-	91,841
Other noncurrent liabilities and deferred revenue	149,101	27,640	176,741
		-	
Total liabilities	1,798,914	17,906	1,816,820
Net assets:			
Unrestricted			
Opening balance	559,236	(86,096)	473,140
Current year net income (loss)	21,926	(156,852)	(134,926)
Other changes, net	(11,366)	-	(11,366)
Ending balance	569,796	(242,948)	326,848
		-42.6%	
Restricted			-
Temporarily	110,758	(11,818)	98,940
Permanently	144,212	113,837	258,049
Total net assets	824,766	(140,929)	683,837
		-17.1%	
Total liabilities and net assets	2,623,680	(123,023)	2,500,657

Appendix II

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION
CORRECTED CONSOLIDATING BALANCE SHEET
as of June 30, 1997
(Dollars in Thousands)

	Allegheny General Hospital, as Reported	Adjustments	Corrected	Allegheny University Medical Centers, as Reported	Adjustments	Corrected	Delaware Valley Obligated Group, as Reported	Adjustments	Corrected
ASSETS									
Current assets:									
Cash and cash equivalents	4,962		4,962	8,729		8,729	20,444	-	20,444
Short-term investments	2,901		2,901	-		-	6	-	6
Assets limited or restricted as to use	4,643		4,643	2,960		2,960	26,167	-	26,167
Receivables:									
Patient accounts, net	54,158	3,361	57,519	27,004	(7,100)	19,904	201,914	(9,615)	192,299
Grants and other	7,593		7,593	1,379		1,379	40,312	-	40,312
Inventories	10,737		10,737	2,270		2,270	12,733	-	12,733
Prepaid expenses	1,249		1,249	1,689		1,689	4,568	-	4,568
Total current assets	86,243	3,361	89,604	44,031	(7,100)	36,931	306,144	(9,615)	296,529
Assets limited or restricted as to use, net of current portion	172,484	(114,144)	58,340	184,544		184,544	204,322	5,200	209,522
Property and equipment, net	231,588	(1,512)	230,076	4,234		4,234	476,191	(2,200)	473,991
Other assets	68,095	(375)	67,720	7,424		7,424	41,638	(883)	40,755
Due from affiliates	29,830	118,670	148,500	-		-	-	-	-
Total assets	588,240	6,000	594,240	240,233	(7,100)	233,133	1,028,295	(7,498)	1,020,797
LIABILITIES AND NET ASSETS									
Current liabilities:									
Accounts payable and accrued expenses	58,837	1,000	59,837	24,419	(8,061)	16,358	129,683	305	129,988
Deferred revenue	-	447	447	-		-	17,823	-	17,823
Line of credit	-		-	-		-	57,100	-	57,100
Current portion of long-term debt (A)	7,567	242,454	250,021	3,462		3,462	12,803	394,478	407,281
Total current liabilities	66,404	243,901	310,305	27,881	(8,061)	19,820	217,409	394,783	612,192
Long-term debt, net of current portion (A)	242,454	(242,454)	-	118,150		118,150	394,478	(394,478)	-
Self-insurance liabilities	-		-	1,301		1,301	7,320	-	7,320
Other noncurrent liabilities	16,191	5,806	21,997	41,128	8,541	49,669	19,690	5,200	24,890
Due to affiliates	-		-	16,632		16,632	40,992	104,181	145,173
Total liabilities	325,049	7,253	332,302	205,092	480	205,572	679,889	109,686	789,575
Net assets:									
Unrestricted									
Opening balance	209,647	2,908	212,555	-	-	-	150,925	(36,888)	114,037
Current year net income (loss)	11,843	(4,161)	7,682	20,057	(7,580)	12,477	23,701	(80,296)	(56,595)
Other changes, net	30,596	-	30,596	(3,868)	-	(3,868)	16,644	-	16,644
Ending balance	252,086	(1,253)	250,833	16,189	(7,580)	8,609	191,270	(117,184)	74,086
Restricted:									
Temporarily	3,576		3,576	-		-	76,997	-	76,997
Permanently	7,529		7,529	18,952		18,952	80,139	-	80,139
Total net assets	263,191	(1,253)	261,938	35,141	(7,580)	27,561	348,406	(117,184)	231,222
Total liabilities and net assets	588,240	6,000	594,240	240,233	(7,100)	233,133	1,028,295	(7,498)	1,020,797

	Allegheny Hospitals, Centennial, as Reported	Adjustments	Corrected	Allegheny Hospitals, New Jersey, as Reported	Adjustments	Corrected	Allegheny Integrated Health Group, as Reported	Adjustments	Corrected
ASSETS									
Current assets:									
Cash and cash equivalents	968	-	968	1,238		1,238	858		858
Short-term investments	500	-	500	-		-	397		397
Assets limited or restricted as to use	11,695	-	11,695	3,290		3,290	-		-
Receivables:									
Patient accounts, net	49,622	-	49,622	9,022		9,022	23,999		23,999
Grants and other	10,849	-	10,849	244		244	3,743		3,743
Inventories	7,138	-	7,138	396		396	-		-
Prepaid expenses	1,664	-	1,664	340		340	-		-
Total current assets	82,436	-	82,436	14,530	-	14,530	28,997	-	28,997
Assets limited or restricted as to use, net of current portion	58,240	-	58,240	11,764		11,764	-		-
Property and equipment, net	144,123	(67,385)	76,738	23,354		23,354	-		-
Other assets	105,834	(27,560)	78,274	20,033	(17,161)	2,872	1,544	(5,843)	(4,299)
Due from affiliates	-	43,235	43,235	-	14,560	14,560	-		-
Total assets	390,633	(51,710)	338,923	69,681	(2,601)	67,080	30,541	(5,843)	24,698
LIABILITIES AND NET ASSETS									
Current liabilities:									
Accounts payable and accrued expenses	68,077	(318)	67,759	11,615		11,615	24,974	(1,143)	23,831
Deferred revenue	1,142	-	1,142	-		-	-		-
Line of credit	-	-	-	-		-	-		-
Current portion of long-term debt (A)	7,912	166,025	173,937	2,912		2,912	25		25
Total current liabilities	77,131	165,707	242,838	14,527	-	14,527	24,999	(1,143)	23,856
Long-term debt, net of current portion (A)	166,025	(166,025)	-	38,271		38,271	88		88
Self-insurance liabilities	-	-	-	-		-	-		-
Other noncurrent liabilities	12,006	-	12,006	75		75	15,000	(3,359)	11,641
Due to affiliates	100,249	(41,770)	58,479	13,414		13,414	15,549		15,549
Total liabilities	355,411	(42,088)	313,323	66,287	-	66,287	55,636	(4,502)	51,134
Net assets:									
Unrestricted									
Opening balance	-	-	-	-	-	-	37,074	(889)	36,185
Current year net income (loss)	10,307	(9,622)	685	3,191	(2,601)	590	(61,421)	(452)	(61,873)
Other changes, net	(32)	-	(32)	(1,122)	-	(1,122)	(748)	-	(748)
Ending balance	10,275	(9,622)	653	2,069	(2,601)	(532)	(25,095)	(1,341)	(26,436)
Restricted:									
Temporarily	17,776	-	17,776	1,325		1,325	-		-
Permanently	7,171	-	7,171	-		-	-		-
Total net assets	35,222	(9,622)	25,600	3,394	(2,601)	793	(25,095)	(1,341)	(26,436)
Total liabilities and net assets	390,633	(51,710)	338,923	69,681	(2,601)	67,080	30,541	(5,843)	24,698

	Allegheny Singer-Research Institute, as Reported	Adjustments	Corrected	AHERF Operations, as Reported	Adjustments	Corrected	Eliminating Entries, as Reported	Adjustments	Corrected	Consolidated AHERF, as Reported	Adjustments	Consolidated AHERF, as Corrected
ASSETS												
Current assets:												
Cash and cash equivalents	-		-	(16,683)		(16,683)	-		-	20,516	-	20,516
Short-term investments	-		-	-		-	-		-	3,804	-	3,804
Assets limited or restricted as to use	-		-	25,167		25,167	-		-	73,922	-	73,922
Receivables:												
Patient accounts, net	-		-	1,342		1,342	-		-	367,061	(13,354)	353,707
Grants and other	1,106		1,106	24,842		24,842	2,051		2,051	92,119	-	92,119
Inventories	-		-	192		192	-		-	33,466	-	33,466
Prepaid expenses	-		-	10,054		10,054	(4,396)		(4,396)	15,168	-	15,168
Total current assets	1,106	-	1,106	44,914	-	44,914	(2,345)	-	(2,345)	606,056	(13,354)	592,702
Assets limited or restricted as to use, net of current portion	-		-	263,611	11,452	275,063	(114,144)	114,144	-	780,821	16,652	797,473
Property and equipment, net	149		149	41,645		41,645	(414)		(414)	920,870	(71,097)	849,773
Other assets			-	103,068	(3,402)	99,666	(31,703)		(31,703)	315,933	(55,224)	260,709
Due from affiliates	84		84	292,687	90	292,777	(322,601)	(176,555)	(499,156)	-	-	-
Total assets	1,339	-	1,339	745,925	8,140	754,065	(471,207)	(62,411)	(533,618)	2,623,680	(123,023)	2,500,657
LIABILITIES AND NET ASSETS												
Current liabilities:												
Accounts payable and accrued expenses	684		684	171,232	(1,964)	169,268	1		1	489,522	(10,181)	479,341
Deferred revenue	1,399		1,399	-		-	(3,991)		(3,991)	16,373	447	16,820
Line of credit	-		-	-		-	-		-	57,100	-	57,100
Current portion of long-term debt (A)	-		-	23		23	-		-	34,704	802,957	837,661
Total current liabilities	2,083	-	2,083	171,255	(1,964)	169,291	(3,990)	-	(3,990)	597,699	793,223	1,390,922
Long-term debt, net of current portion (A)	-		-	807		807	-		-	960,273	(802,957)	157,316
Self-insurance liabilities	-		-	83,220		83,220	-		-	91,841	-	91,841
Other noncurrent liabilities	-		-	78,617	11,452	90,069	(33,606)		(33,606)	149,101	27,640	176,741
Due to affiliates	-		-	251,163		251,163	(437,999)	(62,411)	(500,410)	-	-	-
Total liabilities	2,083	-	2,083	585,062	9,488	594,550	(475,595)	(62,411)	(538,006)	1,798,914	17,906	1,816,820
Net assets:												
Unrestricted												
Opening balance	18,229	3,937	22,166	120,119	(55,164)	64,955	23,242		23,242	559,236	(86,096)	473,140
Current year net income (loss)	(5,836)	(3,937)	(9,773)	24,872	(48,203)	(23,331)	(4,788)		(4,788)	21,926	(156,852)	(134,926)
Other changes, net	(13,185)	-	(13,185)	(46,735)	-	(46,735)	7,084		7,084	(11,366)	-	(11,366)
Ending balance	(792)	-	(792)	98,256	(103,367)	(5,111)	25,538		25,538	569,796	(242,948)	326,848
Restricted:												
Temporarily	48		48	12,079	(11,818)	261	(1,043)		(1,043)	110,758	(11,818)	98,940
Permanently	-		-	50,528	113,837	164,365	(20,107)		(20,107)	144,212	113,837	258,049
Total net assets	(744)	-	(744)	160,863	(1,348)	159,515	4,388	-	4,388	824,766	(140,929)	683,837
Total liabilities and net assets	1,339	-	1,339	745,925	8,140	754,065	(471,207)	(62,411)	(533,618)	2,623,680	(123,023)	2,500,657

DELAWARE VALLEY OBLIGATED GROUP
CORRECTED COMBINING BALANCE SHEET
as of June 30, 1997
(Dollars in Thousands)

	MCP Hospital (aka East Falls), as Reported	Adjustments	Corrected	Elkins Park Hospital	Adjustments	Corrected	Bucks County Hospital, as Reported	Adjustments	Corrected	Hahnemann University Hospital (aka Center City), as Reported	Adjustments	Corrected	Management Support Services, as Reported	Adjustments	Corrected	St. Christopher's, as Reported	Adjustments	Corrected	Allegheny University of Health Sciences, as Reported	Adjustments	Corrected	Eliminating Entries, as Reported.	RWB Debt Reclass Adjustment (A)	Corrected	Combined DVOG Operations, as Reported	Adjustments	Corrected
ASSETS																											
Current assets:																											
Cash and cash equivalents	4,122	-	4,122	311		311	449		449	11,763		11,763	307		307	3,437		3,437	55		55	-		-	20,444	-	20,444
Short-term investments	-		-			-	-		-	-		-	-		-	6		6	-		-	-		-	6	-	6
Assets limited or restricted as to use	1,383		1,383	-		-	-		-	6,239		6,239	5		5	1,202		1,202	17,338		17,338	-		-	26,167	-	26,167
Receivables:			-			-			-			-			-			-			-				-		-
Patient accounts, net	45,201	(2,132)	43,069	12,364	(1,190)	11,174	10,158	(2,430)	7,728	56,451	(3,680)	52,771	1,511		1,511	35,261	(183)	35,078	40,968		40,968	-		-	201,914	(9,615)	192,299
Grants and other	2,911		2,911	201		201	17		17	3,205		3,205	49		49	2,142		2,142	31,787		31,787	-		-	40,312	-	40,312
Inventories	2,990		2,990	631		631	516		516	6,759		6,759	274		274	1,493		1,493	70		70	-		-	12,733	-	12,733
Prepaid expenses	1,270		1,270	185		185	254		254	1,779		1,779	122		122	449		449	509		509	-		-	4,568	-	4,568
Total current assets	57,877	(2,132)	55,745	13,692	(1,190)	12,502	11,394	(2,430)	8,964	86,196	(3,680)	82,516	2,268	-	2,268	43,990	(183)	43,807	90,727	-	90,727		-	-	306,144	(9,615)	296,529
Assets limited or restricted as to use, net of current portion	5,468		5,468	27		27	-		-	26,908	5,200	32,108	-		-	30,589		30,589	141,330		141,330	-		-	204,322	5,200	209,522
Property and equipment, net	78,387	(494)	77,893	27,715		27,715	21,524		21,524	172,565		172,565	5,164		5,164	77,320		77,320	93,516	(1,706)	91,810	-		-	476,191	(2,200)	473,991
Other assets	8,967		8,967	4,026		4,026	4,259	(883)	3,376	8,760		8,760	2,510		2,510	8,170		8,170	4,946		4,946	-		-	41,638	(883)	40,755
Due from affiliates	5,848	(5,848)	-	5,946		5,946	4,341		4,341	44,660	(40,388)	4,272	22,679	475	23,154	6,966	(6,966)	-	-		-	(90,440)	52,727	(37,713)	-		-
Total assets	156,547	(8,474)	148,073	51,406	(1,190)	50,216	41,518	(3,313)	38,205	339,089	(38,868)	300,221	32,621	475	33,096	167,035	(7,149)	159,886	330,519	(1,706)	328,813	(90,440)	52,727	(37,713)	1,028,295	(7,498)	1,020,797
																										-0.7%	
LIABILITIES AND NET ASSETS																											
Current liabilities:																											
Accounts payable and accrued expenses	26,313		26,313	6,129		6,129	3,728		3,728	42,203	305	42,508	9,427		9,427	15,288		15,288	26,595		26,595	-		-	129,683	305	129,988
Line of credit	15,000		15,000	-		-	-		-	15,000		15,000	24,100		24,100	-		-	3,000		3,000	-		-	57,100	-	57,100
Deferred revenue	55		55	-		-	-		-	560		560	-		-	836		836	16,372		16,372	-		-	17,823	-	17,823
Current portion of long-term debt (A)	1,218		1,218	2,719		2,719	1,104		1,104	6,577		6,577	-		-	1,185		1,185	-		-	-	394,478	394,478	12,803	394,478	407,281
Total current liabilities	42,586	-	42,586	8,848	-	8,848	4,832	-	4,832	64,340	305	64,645	33,527	-	33,527	17,309	-	17,309	45,967	-	45,967	-	394,478	394,478	217,409	394,783	612,192
Long-term debt, net of current portion (A)	58,005		58,005	57,240		57,240	18,929		18,929	178,004		178,004	-		-	46,234		46,234	36,066		36,066		(394,478)	(394,478)	394,478	(394,478)	-
Self-insurance liabilities	-		-	-		-	-		-	3,886		3,886	-		-	-		-	3,434		3,434			-	7,320	-	7,320
Other noncurrent liabilities	-		-	56		56	110		110	-	5,200	5,200	44		44	137		137	19,343		19,343	-		-	19,690	5,200	24,890
Due to affiliates	-	23,560	23,560	23,584	12,151	35,735	16,085	9,324	25,409	-		-	-		-	-	7,244	7,244	91,763	(825)	90,938	(90,440)	52,727	(37,713)	40,992	104,181	145,173
Total liabilities	100,591	23,560	124,151	89,728	12,151	101,879	39,956	9,324	49,280	246,230	5,505	251,735	33,571	-	33,571	63,680	7,244	70,924	196,573	(825)	195,748	(90,440)	52,727	(37,713)	679,889	109,686	789,575
Net assets:																											
Unrestricted																											
Opening balance	44,285	(8,377)	35,908	(42,359)	(5,054)	(47,413)	(3,904)	(5,602)	(9,506)	64,620	(6,856)	57,764	(949)	361	(588)	73,716	(8,594)	65,122	15,516	(2,766)	12,750			-	150,925	(36,888)	114,037
Current year net income (loss)	11,657	(23,657)	(12,000)	2,766	(8,287)	(5,521)	4,100	(7,035)	(2,935)	12,163	(37,517)	(25,354)	-	114	114	8,288	(5,799)	2,489	(15,273)	1,885	(13,388)		-	-	23,701	(80,296)	(56,595)
Other changes, net	(3,491)	-	(3,491)	1,027	-	1,027	1,331	-	1,331	(9,092)	-	(9,092)	-	-	-	6,254	-	6,254	20,615	-	20,615			-	16,644	-	16,644
Ending balance	52,451	(32,034)	20,417	(38,566)	(13,341)	(51,907)	1,527	(12,637)	(11,110)	67,691	(44,373)	23,318	(949)	475	(474)	88,258	(14,393)	73,865	20,858	(881)	19,977	-	-	-	191,270	(117,184)	74,086
																										-61.3%	
Restricted:																											
Temporarily	2,006	-	2,006	244		244	35		35	8,025		8,025	(1)		(1)	11,031		11,031	55,657		55,657	-		-	76,997	-	76,997
Permanently	1,499		1,499	-		-	-		-	17,143		17,143	-		-	4,066		4,066	57,431		57,431	-		-	80,139	-	80,139
Total net assets	55,956	(32,034)	23,922	(38,322)	(13,341)	(51,663)	1,562	(12,637)	(11,075)	92,859	(44,373)	48,486	(950)	475	(475)	103,355	(14,393)	88,962	133,946	(881)	133,065	-	-	-	348,406	(117,184)	231,222
																										-33.6%	
Total liabilities and net assets	156,547	(8,474)	148,073	51,406	(1,190)	50,216	41,518	(3,313)	38,205	339,089	(38,868)	300,221	32,621	475	33,096	167,035	(7,149)	159,886	330,519	(1,706)	328,813	(90,440)	52,727	(37,713)	1,028,295	(7,498)	1,020,797

Appendix II

ALLEGHENY HOSPITALS, CENTENNIAL
CORRECTED COMBINING BALANCE SHEET
as of June 30, 1997
(Dollars in Thousands)

	Graduate Hospital, as Reported	Adjustments	Corrected	Mt. Sinai Hospital, as Reported	Adjustments	Corrected	City Avenue Hospital, as Reported	Adjustments	Corrected	Parkview Hospital, as Reported	Adjustments	Corrected	Eliminating Entries, as Reported	RWB Debt Reclass Adjustment (A)	Corrected	Combined Allegheny Hospitals, Centennial, as Reported	Adjustments	Combined Allegheny Hospitals, Centennial, as Corrected
ASSETS																		
Current assets:																		
Cash and cash equivalents	903		903	65		65							-		-	968	-	968
Short-term investments	500		500	-		-									-	500	-	500
Assets limited or restricted as to use	8,945		8,945	2,750		2,750							-		-	11,695	-	11,695
Receivables:			-			-									-	-	-	-
Patient accounts, net	29,356		29,356	6,781		6,781	6,648		6,648	6,837		6,837	-		-	49,622	-	49,622
Grants and other	5,877		5,877	283		283	66		66	42		42	4,581		4,581	10,849	-	10,849
Inventories	5,597		5,597	189		189	779		779	573		573	-		-	7,138	-	7,138
Prepaid expenses	1,417		1,417	162		162	30		30	55		55	-		-	1,664	-	1,664
Total current assets	52,595	-	52,595	10,230	-	10,230	7,523	-	7,523	7,507	-	7,507	4,581	-	4,581	82,436	-	82,436
Assets limited or restricted as to use, net of current portion	54,333		54,333	3,907		3,907	-		-	-		-	-		-	58,240	-	58,240
Property and equipment, net	80,808	(53,197)	27,611	8,135	(8,135)	-	24,868		24,868	30,312	(6,053)	24,259	-		-	144,123	(67,385)	76,738
Other assets	7,475		7,475	57,541	(6,564)	50,977	26,615	(10,305)	16,310	14,203	(10,691)	3,512	-		-	105,834	(27,560)	78,274
Due from affiliates	13,876	43,235	57,111	-		-	-		-	-		-	(13,876)		(13,876)	-	43,235	43,235
Total assets	209,087	(9,962)	199,125	79,813	(14,699)	65,114	59,006	(10,305)	48,701	52,022	(16,744)	35,278	(9,295)	-	(9,295)	390,633	(51,710)	338,923
												-					-13.24%	
LIABILITIES AND NET ASSETS												-						
Current liabilities:												-						
Accounts payable and accrued expenses	38,051		38,051	12,441		12,441	9,646		9,646	7,939	(318)	7,621	-		-	68,077	(318)	67,759
Deferred revenue	62		62	-		-	549		549	531		531	-		-	1,142	-	1,142
Line of credit	-														-	-	-	
Current portion of long-term debt (A)	5,840		5,840	1,445		1,445	158		158	469		469	-	166,025	166,025	7,912	166,025	173,937
Total current liabilities	43,953	-	43,953	13,886	-	13,886	10,353	-	10,353	8,939	(318)	8,621	-	166,025	166,025	77,131	165,707	242,838
Long-term debt, net of current portion (A)	117,714		117,714	41,640		41,640	3,799		3,799	2,872		2,872	-	(166,025)	(166,025)	166,025	(166,025)	-
Self-insurance liabilities															-	-	-	
Other noncurrent liabilities	11,979		11,979	27		27	-		-	-		-	-		-	12,006	-	12,006
Due to affiliates	-		-	24,293	(11,651)	12,642	44,749	(12,444)	32,305	40,502	(17,675)	22,827	(9,295)		(9,295)	100,249	(41,770)	58,479
Total liabilities	173,646	-	173,646	79,846	(11,651)	68,195	58,901	(12,444)	46,457	52,313	(17,993)	34,320	(9,295)	-	(9,295)	355,411	(42,088)	313,323
Net assets:																		
Unrestricted																		
Opening balance	-		-	-		-	-		-	-		-	-		-	-		-
Current year net income (loss)	10,443	(9,962)	481	-	(3,048)	(3,048)	130	2,139	2,269	(266)	1,249	983			-	10,307	(9,622)	685
Other changes, net	51		51	(33)		(33)	(25)		(25)	(25)		(25)			-	(32)	-	(32)
Ending balance	10,494	(9,962)	532	(33)	(3,048)	(3,081)	105	2,139	2,244	(291)	1,249	958	-		-	10,275	(9,622)	653
																	-93.64%	
Restricted:																		
Temporarily	17,776		17,776	-		-	-		-	-		-	-		-	17,776	-	17,776
Permanently	7,171		7,171	-		-	-		-	-		-	-		-	7,171	-	7,171
Total net assets	35,441	(9,962)	25,479	(33)	(3,048)	(3,081)	105	2,139	2,244	(291)	1,249	958	-	-	-	35,222	(9,622)	25,600
																	-27.32%	
Total liabilities and net assets	209,087	(9,962)	199,125	79,813	(14,699)	65,114	59,006	(10,305)	48,701	52,022	(16,744)	35,278	(9,295)	-	(9,295)	390,633	(51,710)	338,923

(A) As of June 30, 1997, Centennial debt was in technical default, and the Master Trustee did not provide a waiver when requested by AHERF to do so. Since the Master Trustee had the right (irrespective of whether it exercised such right) to accelerate payment of the debt, in conformity with GAAP the debt is reflected as current.

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION
CORRECTED CONSOLIDATED STATEMENT OF OPERATIONS
For the year ended June 30, 1997
(Dollars in Thousands)

	As Reported	Adjustments	Corrected
Unrestricted revenues, gains and other support:			
Net patient service revenue	1,702,671	(63,000)	1,639,671
Research and training support	71,524	3,937	75,461
Academic activities	64,434	-	64,434
Investment income	85,953	(20,223)	65,730
Net assets released from restrictions used for operations	47,229	(36,663)	10,566
Other revenue	83,156	447	83,603
Total revenues, gains and other support	2,054,967	(115,502)	1,939,465
		-5.6%	
Expenses:			
Salaries, wages and fringe benefits	1,187,601	(6,657)	1,180,944
Materials, supplies and services	700,154	48,591	748,745
Depreciation and amortization	107,691	(907)	106,784
Interest	37,595	323	37,918
Total expenses	2,033,041	41,350	2,074,391
		2.0%	
Net income (loss)	21,926	(156,852)	(134,926)
		-715%	
Net assets released from restrictions used for acquisition of property and equipment	395	-	395
Unrealized depreciation of investments	(9,146)	-	(9,146)
Transfers to other net assets	(1,667)	-	(1,667)
Other	(948)	-	(948)
Increase (decrease) in unrestricted net assets	10,560	(156,852)	(146,292)
		-1485%	

Appendix II

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION
CORRECTED CONSOLIDATING STATEMENT OF OPERATIONS
For the year ended June 30, 1997
(Dollars in Thousands)

	Allegheny General Hospital, as Reported	Adjustments	Corrected	Allegheny University Medical Centers, as Reported	Adjustments	Corrected	Delaware Valley Obligated Group, as Reported	Adjustments	Corrected
Unrestricted revenues, gains and other support:									
Net patient service revenue	441,088	(3,750)	437,338	103,059	(7,100)	95,959	956,980	(34,705)	922,275
Research and training support	-		-	-		-	66,077	3,937	70,014
Academic activities	-		-	-		-	64,434	-	64,434
Investment income/(loss)	20,470		20,470	6,882		6,882	17,796	-	17,796
Net assets released from restrictions used for operations	1,081		1,081	741		741	8,386	-	8,386
Other revenue	15,192	447	15,639	1,962		1,962	63,941	-	63,941
Total revenues, gains and other support	477,831	(3,303)	474,528	112,644	(7,100)	105,544	1,177,614	(30,768)	1,146,846
Expenses:									
Salaries, wages and fringe benefits	197,392	(747)	196,645	53,130		53,130	661,370	(1,096)	660,274
Materials, supplies and services	224,748	1,479	226,227	37,136		37,136	411,078	50,493	461,571
Depreciation and amortization	30,873	126	30,999	(1,386)	480	(906)	57,099	131	57,230
Interest	12,975		12,975	3,707		3,707	24,366	-	24,366
Total expenses	465,988	858	466,846	92,587	480	93,067	1,153,913	49,528	1,203,441
			-			-			-
Net income/(loss)	11,843	(4,161)	7,682	20,057	(7,580)	12,477	23,701	(80,296)	(56,595)
Net assets released from restrictions used for acquisition of property and equipment	167		167	-		-	228	-	228
Unrealized appreciation/(depreciation) of investments	(1,191)		(1,191)	4,188		4,188	(7,915)		(7,915)
Transfers to other net assets	-		-	-		-	(1,667)	-	(1,667)
Other	-		-	(49)		(49)	1	-	1
Transfers (to)/from affiliates, net	31,620		31,620	(8,007)		(8,007)	25,997	-	25,997
Increase/(decrease) in unrestricted net	42,439	(4,161)	38,278	16,189	(7,580)	8,609	40,345	(80,296)	(39,951)

	Allegheny Hospitals, Centennial, as Reported	Adjustments	Corrected	Allegheny Hospitals, New Jersey, as Reported	Adjustments	Corrected	Allegheny Integrated Health Group, as Reported	Adjustments	Corrected
Unrestricted revenues, gains and other support:									
Net patient service revenue	64,843	(14,945)	49,898	16,699	(2,500)	14,199	117,589		117,589
Research and training support	96	-	96	-		-	-		-
Academic activities	-	-	-	-		-	-		-
Investment income/(loss)	1,006	-	1,006	1,373		1,373	(1,021)		(1,021)
Net assets released from restrictions used for operations	189	-	189	-		-	-		-
Other revenue	2,138	-	2,138	378		378	9,400		9,400
Total revenues, gains and other support	68,272	(14,945)	53,327	18,450	(2,500)	15,950	125,968	-	125,968
Expenses:									
Salaries, wages and fringe benefits	26,048	-	26,048	7,743		7,743	130,355		130,355
Materials, supplies and services	27,802	(4,525)	23,277	6,293	604	6,897	48,682	(508)	48,174
Depreciation and amortization	1,746	(798)	948	678	(503)	175	8,319	637	8,956
Interest	2,369	-	2,369	545		545	33	323	356
Total expenses	57,965	(5,323)	52,642	15,259	101	15,360	187,389	452	187,841
			-			-			-
Net income/(loss)	10,307	(9,622)	685	3,191	(2,601)	590	(61,421)	(452)	(61,873)
Net assets released from restrictions used for acquisition of property and equipment	-	-	-	-		-	-		-
Unrealized appreciation/(depreciation) of investments	40		40	(1,078)		(1,078)	-		-
Transfers to other net assets	-	-	-	-		-	-		-
Other	-	-	-	-		-	(1,076)		(1,076)
Transfers (to)/from affiliates, net	(72)	-	(72)	(44)		(44)	328		328
Increase/(decrease) in unrestricted net	10,275	(9,622)	653	2,069	(2,601)	(532)	(62,169)	(452)	(62,621)

	Allegheny Singer Research Institute, as Reported	Adjustments	Corrected	AHERF Operations, as Reported	Adjustments	Corrected
Unrestricted revenues, gains and other support:						
Net patient service revenue	-		-	2,413		2,413
Research and training support	9,440		9,440	-		-
Academic activities	-		-	-		-
Investment income/(loss)	299		299	45,601	(20,223)	25,378
Net assets released from restrictions used for operations	169		169	36,663	(36,663)	-
Other revenue	24		24	42,584		42,584
Total revenues, gains and other support	9,932	-	9,932	127,261	(56,886)	70,375
Expenses:						
Salaries, wages and fringe benefits	4,829		4,829	106,587	(4,814)	101,773
Materials, supplies and services	10,003	3,937	13,940	(13,677)	(2,889)	(16,566)
Depreciation and amortization	883		883	9,479	(980)	8,499
Interest	53		53	-		-
Total expenses	15,768	3,937	19,705	102,389	(8,683)	93,706
			-			-
Net income/(loss)	(5,836)	(3,937)	(9,773)	24,872	(48,203)	(23,331)
Net assets released from restrictions used for acquisition of property and equipment	-		-	-		-
Unrealized appreciation/(depreciation) of investments	-		-	(3,190)		(3,190)
Transfers to other net assets	-		-	-		-
Other	3		3	170		170
Transfers (to)/from affiliates, net	(13,188)		(13,188)	(43,715)		(43,715)
Increase/(decrease) in unrestricted net	(19,021)	(3,937)	(22,958)	(21,863)	(48,203)	(70,066)

	Eliminating Entries, as Reported	Adjust.	Corrected	Consolidated AHERF, as Reported	Adjustments	Consolidated AHERF, as Corrected
Unrestricted revenues, gains and other support:						
Net patient service revenue	-		-	1,702,671	(63,000)	1,639,671
Research and training support	(4,089)		(4,089)	71,524	3,937	75,461
Academic activities	-		-	64,434	-	64,434
Investment income/(loss)	(6,453)		(6,453)	85,953	(20,223)	65,730
Net assets released from restrictions used for operations	-		-	47,229	(36,663)	10,566
Other revenue	(52,463)		(52,463)	83,156	447	83,603
Total revenues, gains and other support	(63,005)	-	(63,005)	2,054,967	(115,502)	1,939,465
Expenses:						
Salaries, wages and fringe benefits	147		147	1,187,601	(6,657)	1,180,944
Materials, supplies and services	(51,911)		(51,911)	700,154	48,591	748,745
Depreciation and amortization	-		-	107,691	(907)	106,784
Interest	(6,453)		(6,453)	37,595	323	37,918
Total expenses	(58,217)	-	(58,217)	2,033,041	41,350	2,074,391
			-			-
Net income/(loss)	(4,788)	-	(4,788)	21,926	(156,852)	(134,926)
Net assets released from restrictions used for acquisition of property and equipment	-		-	395	-	395
Unrealized appreciation/(depreciation) of investments	-		-	(9,146)	-	(9,146)
Transfers to other net assets	-		-	(1,667)	-	(1,667)
Other	3		3	(948)	-	(948)
Transfers (to)/from affiliates, net	7,081		7,081	-	-	-
Increase/(decrease) in unrestricted net	2,296	-	2,296	10,560	(156,852)	(146,292)

Appendix II

DELAWARE VALLEY OBLIGATED GROUP
CORRECTED COMBINING STATEMENT OF OPERATIONS
for the year ended June 30, 1997
(Dollars in Thousands)

	MCP Hospital (aka East Falls), as Reported	Adjustments	Corrected	Elkins Park Hospital, as Reported	Adjustments	Corrected	Bucks County Hospital, as Reported	Adjustments	Corrected	Hahnemann University Hospital (aka Center City), as Reported	Adjustments	Corrected
Unrestricted revenues, gains and other support:												
Net patient service revenue	217,699	(6,799)	210,900	61,297	(4,811)	56,486	51,593	(3,478)	48,115	330,099	(16,397)	313,702
Research and training support	1,350		1,350	-		-	-		-	3,706		3,706
Academic activities	2		2	134		134	17		17	-		-
Investment income/(loss)	468		468	25		25	7		7	6,501		6,501
Net assets released from restrictions used for operations	176		176	19		19	14		14	512		512
Other revenue	9,477		9,477	651		651	944		944	6,552		6,552
gains and other support	229,172	(6,799)	222,373	62,126	(4,811)	57,315	52,575	(3,478)	49,097	347,370	(16,397)	330,973
Expenses:			-			-			-			-
Salaries, wages and fringe benefits	108,281	(219)	108,062	27,213	(219)	26,994	22,640	(219)	22,421	161,514	(220)	161,294
Materials, supplies and services	95,474	17,077	112,551	23,823	3,695	27,518	20,679	3,645	24,324	145,343	21,340	166,683
Depreciation and amortization	10,383		10,383	3,193		3,193	3,285	131	3,416	18,803		18,803
Interest	3,377		3,377	5,131		5,131	1,871		1,871	9,547		9,547
Total expenses	217,515	16,858	234,373	59,360	3,476	62,836	48,475	3,557	52,032	335,207	21,120	356,327
			-			-			-			-
Net income (loss)	11,657	(23,657)	(12,000)	2,766	(8,287)	(5,521)	4,100	(7,035)	(2,935)	12,163	(37,517)	(25,354)
Net assets released from restrictions used for acquisition of property and equipment	-		-	-		-	-		-	-		-
Unrealized appreciation/(depreciation) of investments	(96)		(96)	-		-	-		-	(6,113)		(6,113)
Transfers to other net assets	(150)		(150)	25		25	-		-	(159)		(159)
Transfers (to)/from affiliates, net	(3,245)		(3,245)	1,001		1,001	1,331		1,331	(2,820)		(2,820)
Other	-		-	1		1	-		-	-		-
Increase (decrease) in unrestricted net assets	8,166	(23,657)	(15,491)	3,793	(8,287)	(4,494)	5,431	(7,035)	(1,604)	3,071	(37,517)	(34,446)

	Management Support Services, as Reported	Adjustments	Corrected	St. Christophers, as Reported	Adjustments	Corrected	Allegheny University of Health and Science Services, as Reported	Adjustments	Corrected	Eliminating Entries, as Reported	Adjustments	Corrected	Combined Delaware Valley Obligated Group, as Reported	Adjustments	Combined Delaware Valley Obligated Group, as Corrected
Unrestricted revenues, gains and other support:															
Net patient service revenue	-		-	133,029	(1,220)	131,809	163,263	(2,000)	161,263	-			956,980	(34,705)	922,275
Research and training support	-		-	2,111		2,111	58,910	3,937	62,847	-			66,077	3,937	70,014
Academic activities	-		-	791		791	63,490		63,490	-			64,434	-	64,434
Investment income/(loss)	-		-	4,665		4,665	6,130		6,130	-			17,796	-	17,796
Net assets released from restrictions used for operations	-		-	911		911	6,754		6,754	-			8,386	-	8,386
Other revenue	5,106		5,106	6,720		6,720	87,779		87,779	(53,288)			63,941	-	63,941
gains and other support	5,106	-	5,106	148,227	(1,220)	147,007	386,326	1,937	388,263	(53,288)			1,177,614	(30,768)	1,146,846
														-2.61%	
Expenses:			-			-			-						-
Salaries, wages and fringe benefits	17,770		17,770	66,041	(219)	65,822	257,911		257,911	-			661,370	(1,096)	660,274
Materials, supplies and services	(17,383)	(114)	(17,497)	63,325	4,798	68,123	133,105	52	133,157	(53,288)			411,078	50,493	461,571
Depreciation and amortization	6,312		6,312	7,833		7,833	7,290		7,290	-			57,099	131	57,230
Interest	(1,593)		(1,593)	2,740		2,740	3,293		3,293	-			24,366	-	24,366
Total expenses	5,106	(114)	4,992	139,939	4,579	144,518	401,599	52	401,651	(53,288)			1,153,913	49,528	1,203,441
			-			-			-					4.29%	
Net income (loss)	-	114	114	8,288	(5,799)	2,489	(15,273)	1,885	(13,388)	-	-	-	23,701	(80,296)	(56,595)
														-338.79%	
Net assets released from restrictions used for acquisition of property and equipment	-		-	20		20	208		208	-			228	-	228
Unrealized appreciation/(depreciation) of investments	-		-	(719)		(719)	(987)		(987)	-			(7,915)	-	(7,915)
Transfers to other net assets	-		-	400		400	(1,783)		(1,783)	-			(1,667)	-	(1,667)
Transfers (to)/from affiliates, net	-		-	6,553		6,553	23,177		23,177	-			25,997	-	25,997
Other	-		-	-		-	-		-	-			1	-	1
Increase (decrease) in unrestricted net assets	-	114	114	14,542	(5,799)	8,743	5,342	1,885	7,227	-	-	-	40,345	(80,296)	(39,951)
														-199.02%	

ALLEGHENY HOSPITALS, CENTENNIAL
CORRECTED COMBINING STATEMENT OF OPERATIONS
For the Period May 1, 1997 through June 30, 1997
(Dollars in Thousands)

	Graduate Hospital, as Reported	Adjustments	Corrected	Mt. Sinai Hospital, as Reported	Adjustments	Corrected	City Avenue Hospital, as Reported	Adjustments	Corrected	Parkview Hospital, as Reported	Adjustments	Corrected	Eliminating Entries, as Reported	Adjustments	Corrected	Combined Allegheny Hospitals, Centennial, as Reported	Adjustments	Combined Allegheny Hospitals, Centennial, as Corrected
Unrestricted revenues, gains and other support:																		
Net patient service revenue	40,603	(13,415)	27,188	5,092		5,092	11,106	(1,177)	9,929	8,042	(353)	7,689	-		-	64,843	(14,945)	49,898
Research and training support	96		96	-		-	-		-	-		-	-		-	96	-	96
Academic activities																		
Investment income/(loss)	952		952	54		54	-		-	-		-	-		-	1,006	-	1,006
Net assets released from restrictions used for operations	189		189	-		-	-		-	-		-	-		-	189	-	189
Other revenue	1,061		1,061	863		863	67		67	202		202	(55)		(55)	2,138	-	2,138
Total revenues, gains and other support	42,901	(13,415)	29,486	6,009	-	6,009	11,173	(1,177)	9,996	8,244	(353)	7,891	(55)	-	(55)	68,272	(14,945)	53,327
																	-21.9%	
Expenses:																		
Salaries, wages and fringe benefits	12,689		12,689	3,255		3,255	5,919		5,919	4,185		4,185	-		-	26,048	-	26,048
Materials, supplies and services	18,141	(3,203)	14,938	1,906	3,101	5,007	4,192	(3,085)	1,107	3,618	(1,338)	2,280	(55)		(55)	27,802	(4,525)	23,277
Depreciation and amortization	431	(250)	181	262	(53)	209	610	(231)	379	443	(264)	179	-		-	1,746	(798)	948
Interest	1,197		1,197	586		586	322		322	264		264	-		-	2,369	-	2,369
Total expenses	32,458	(3,453)	29,005	6,009	3,048	9,057	11,043	(3,316)	7,727	8,510	(1,602)	6,908	(55)	-	(55)	57,965	(5,323)	52,642
Net income/(loss)	10,443	(9,962)	481	-	(3,048)	(3,048)	130	2,139	2,269	(266)	1,249	983	-	-	-	10,307	(9,622)	685
																	-93.4%	
Net assets released from restrictions used for acquisition of property and equipment	-		-			-			-			-			-	-	-	-
Unrealized appreciation/(depreciation) of investments	73		73	(33)		(33)	-		-	-		-	-		-	40	-	40
Transfers to other net assets	(22)		(22)	-		-	(25)		(25)	(25)		(25)	-		-	(72)	-	(72)
Transfers (to)/from affiliates, net			-			-			-			-			-	-	-	-
Other																		
Increase/(decrease) in unrestricted net assets	10,494	(9,962)	532	(33)	(3,048)	(3,081)	105	2,139	2,244	(291)	1,249	958	-	-	-	10,275	(9,623)	653
																	-93.7%	

SECOND SUPPLEMENTARY AND REBUTTAL EXPERT REPORT OF ROBERT W. BERLINER, CPA

RE: AHERF OFFICIAL COMMITTEE OF UNSECURED CREDITORS V. PRICEWATERHOUSECOOPERS LLP

(Civil Action No. 00-684)

JANUARY 11, 2005

SECOND SUPPLEMENTARY AND REBUTTAL EXPERT REPORT
OF
ROBERT W. BERLINER, CPA

RE: AHERF OFFICIAL COMMITTEE OF UNSECURED CREDITORS V. PRICEWATERHOUSECOOPERS LLP

January 11, 2005

This report supplements my expert report and supplementary expert report, both issued under date of September 3, 2004, and rebuts the opinions expressed by J. W. Tillett, Jr. in his expert report of November 12, 2004.

I disagree with Mr. Tillett's opinions and reaffirm the opinions expressed in my expert report and the information provided in my first supplementary expert report.

The principal bases for my disagreement with Mr. Tillett are set forth in my expert and supplementary expert reports and in the sections that follow.

<u>Responsibilities of the auditor in an audit performed in accordance with GAAS</u>

Before turning to Mr. Tillett's specific conclusions with respect to various of the matters set forth in my expert reports, I will address a conceptual underpinning, indeed a theme, that permeates Mr. Tillett's report. In his attempts to rebut the opinions expressed in my expert reports and to hold C&L blameless for its audits of AHERF's materially misstated financial statements, Mr. Tillett repeatedly asserts that "AHERF management failed to meet its obligation to C&L as set forth in the AICPA professional standards... [and]...withheld from C&L [information that] would have been significant to C&L's evaluation" of management's assertions inherent in the financial statements."[1] As a result, according to Mr. Tillett, "C&L was *precluded* in its ability to detect material misstatements in connection with its audits."[2] (emphasis added)

In drawing this erroneous conclusion, Mr. Tillett improperly reverses the roles of management and the auditor and completely distorts GAAS by attempting to shift to management much of the responsibility for C&L's failed audits. GAAS, however, addresses management's responsibility only in terms of the financial statements, not in terms of the audit thereof or of management's obligations *to the auditor*.

The following excerpt from Mr. Tillett's report further misstates GAAS in terms of the auditor's knowledge of financial statement components:

> Under GAAS, an entity's transactions and related assets, liabilities, and equity (or, in the case of a not-for-profit entity such as AHERF, net assets) are within the direct knowledge and control of management. The independent auditors'

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[1] Tillett report, page 5.
[2] Tillett report, page 5.

> knowledge of these financial statement components therefore is indirect and filtered through: a) the limitations of an audit, which preclude testing on a one hundred percent basis, and b) management's representations to the independent auditors regarding assumptions that may be built into the financial statements, along with management's intent with respect to the future development of existing conditions.[3]

In fact, GAAS is silent as to the "filtering" of the auditor's knowledge. GAAS recognizes that the auditor's knowledge of the entity's transactions; its related assets, liabilities, and equity; and internal control is limited to that acquired through the audit but indicates that the auditor derives such knowledge from many sources. **(AU § 110.02)** For example, SAS 31, *Evidential Matter*, states:

> Corroborating evidential matter includes both written and electronic information such as checks; records of electronic fund transfers; invoices; contracts; minutes of meetings; confirmations and other written representations by knowledgeable people; information obtained by the auditor from inquiry, observation, inspection, and physical examination; and other information developed by, or available to, the auditor which permits him or her to reach conclusions through valid reasoning. **(AU § 326.17)**

This SAS further states that "evidential matter...obtained from independent sources outside an entity...provides greater assurance...than that secured solely within an entity" and the "independent auditor's direct personal knowledge, obtained through physical examination, observation, computation, and inspection, is more persuasive than information obtained indirectly." **(AU § 326.21)** Consequently, Mr. Tillett distorts the nature and relevance of the auditor's knowledge by characterizing it as "filtered."

<u>Sufficiency and relevance of information obtained during an audit</u>

Mr. Tillett further misstates GAAS by asserting that "GAAS explicitly places on management the responsibility to provide the auditors with sufficient and relevant information[4]...[and]...that management's obligation to disclose to the independent auditors sufficient and relevant information includes the obligation to: a) actively provide the independent auditors with information that directly supports management's assertions in the financial statements, b) actively provide the independent auditors with significant information that management considered[5] in concluding on an accounting treatment that on its face may lend support to an accounting treatment other than the treatment that

[3] Tillett report, page 18.
[4] Tillett report, page 19.
[5] According to Mr. Tillett, information that management has, but chooses to ignore, constitutes information considered by management.

management chose,[6] and c) provide the independent auditors with any other information that they may reasonably request."[7]

Mr. Tillett's assertion that management is responsible for providing the auditor with sufficient and relevant information reflects a misrepresentation of GAAS. As noted above, GAAS is silent as to management's obligations to the auditor and management's responsibility to disclose information that it considered in arriving at its financial statement assertions. Rather, the third standard of fieldwork requires *the auditor* to obtain "sufficient competent evidential matter…through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements." **(AU § 150.02)**

In that regard, SAS 31 is directly on point when it states:

> The independent auditor's objective is to obtain sufficient competent evidential matter to provide him or her with a reasonable basis for forming an opinion. *The amount and kinds of evidential matter required to support an informed opinion are matters for the auditor to determine in the exercise of his or her professional judgment after a careful study of the circumstances in the particular case… .* (emphasis added) **(AU § 326.22)**
>
> In evaluating evidential matter, the auditor…should be thorough in his or her search for evidential matter and unbiased in its evaluation. In designing audit procedures to obtain competent evidential matter, he or she should recognize the possibility that the financial statements may not be fairly presented in conformity with [GAAP]…. **(AU § 326.25)**

Mr. Tillett mistakenly uses the audit engagement letter to support his erroneous position that GAAS places on management the responsibility to provide the auditor with sufficient and relevant information. He asserts the following:

> …management's responsibilities are further established by the engagement letter that the independent auditor signs with his clients. While engagement letters vary in form, they almost always include language making management's cooperation in making available to the independent auditors all financial records and related information, a condition of their engagement to perform an audit. Based on my experience, the requirements to make all financial records and related information available to the independent auditors is synonymous with disclosing to them sufficient and relevant information.[8]

[6] According to Mr. Tillett, "[c]onsideration of such information would allow the independent auditors a chance to determine the propriety of management's evaluation and weighing of seemingly contrary information."
[7] Tillett report, page 18.
[8] Tillett report, pages 19-20.

Mr. Tillett's assertion that making all financial records and related information available to the independent auditors is synonymous with disclosing to them sufficient and relevant information is off-base. It is predicated upon the equally erroneous assumption that it is management's responsibility to decide what is sufficient and relevant to the auditor. To the contrary, as noted above, it is the responsibility of the auditor to determine what is sufficient and relevant, and it is this determination that guides the auditor's design of the nature, timing and extent of audit procedures.

In summary, although evidential matter may include information and representations that the auditor obtains from management regarding the amounts and disclosures in the entity's financial statements, it is the auditor's responsibility to obtain the evidential matter that he or she determines is required to support the audit opinion. Contrary to Mr. Tillett's assertion, it is not management's responsibility to assess the sufficiency and relevance of evidential matter needed by the auditor. Quite simply, by contradicting well-established GAAS, Mr. Tillett's assertion reflects a basic misunderstanding of the auditor's responsibility in conducting an audit of financial statements.

Mr. Tillett "dips deep into the barrel" to come up with another rationale for absolving C&L from any culpability for its failed audits of AHERF's financial statements. He excerpts the following statement from SAS 31 to suggest cost constraints are another excuse for C&L's failure to obtain sufficient confident evidential matter:

> ...an auditor typically works within economic limits. As a result, the auditor's opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. The auditor must decide, again exercising professional judgment, whether the evidential matter available to him within the limits of time and cost is sufficient to justify expression of an opinion. [footnote omitted] In other words, an audit is never performed with unlimited resources.[9]

As with Mr.Tillett's other attempts to defend C&L's failed audits, this rationale fails as well based on the very SAS he cites in its support. Although the auditor should be cognizant of constraints in conducting the audit, SAS 31 stipulates that the matter of "difficulty and expense involved in testing a particular item is not in itself a valid basis for omitting the test." **(AU § 326.24)** In any event, Mr. Tillett provides no explanation or reason to believe that economic or any other constraints actually affected C&L's ability to conduct its audit of or report upon AHERF's financial statements in accordance with GAAS.

<u>Management's Representations</u>

Mr. Tillett blatantly mischaracterizes GAAS by asserting that management's representations are integral to conducting an audit and obtaining sufficient competent

[9] Tillett report, page 11.

evidential matter. To the contrary, SAS 19, *Client Representations*, and SAS 31[10] state just the opposite:

> During an audit, management makes many representations to the auditor, both oral and written, in response to specific inquiries or through the financial statements. Such representations from management are part of the evidential matter the independent auditor obtains, but they are *not a substitute* for the application of those auditing procedures necessary to afford a reasonable basis for his opinion on the financial statements. (emphasis added) **(AU § 333.02)**
>
> The auditor obtains written representations from management to *complement* his other auditing procedures. (emphasis added) In many cases, the auditor applies auditing procedures specifically designed to obtain corroborating information [evidential matter] concerning matters that also are the subject of written representations. **(AU § 333.03)**

Thus, Mr. Tillett has reversed the relationship between management's representations and sufficient competent evidential matter. Also, he has erroneously concluded that the management representation letter is a corroboration of the auditor's audit procedures when, in fact, the opposite is true; that is, the auditor performs audit procedures to corroborate *management's assertions* inherent in the financial statements.

Mr. Tillett further mischaracterizes the significance of management representation letters by asserting:

> The purposes of the representation letters are for management to affirm that all *sufficient and relevant information* has been provided to the independent auditors and to confirm the understanding of the independent auditors with respect to certain events and transactions.[11] (emphasis added)
>
> While the individual representations made in these letters are important elements of the independent auditors' procedures, the greater significance of these letters is the acceptance by management of its responsibilities to present the financial statements fairly in accordance with GAAP and to disclose *sufficient and relevant information* to enable the independent auditors to evaluate whether management has met that responsibility.[12] (emphasis added)

Contrary to Mr. Tillett's contention, Interpretation 3 of SAS 31 states:

> Written representations from management are *a part* of the evidential matter the auditor obtains in an audit performed in accordance with generally accepted auditing standards. (emphasis added) Management's representations about the completeness assertion, whether considered alone or in combination with the

[10] As amended by SAS 48, *The Effects of Computer Processing on the Audit of Financial Statements*.
[11] Tillett report, page 19.
[12] Tillett report, page 19.

> auditor's assessment of control risk, *do not constitute sufficient audit evidence* to support that assertion. (emphasis added) Obtaining such representations *complements but does not replace* other auditing procedures that the auditor should perform. (emphasis added) **(AU § 9326.19)**

Accordingly, the management representation letter is simply one piece of evidential matter. It is not, however, a substitute for the application of necessary audit procedures.

Irregularities

SAS 53, *The Auditor's Responsibility to Detect and Report Errors and Irregularities*, defines irregularities as, among other things, "fraudulent financial reporting undertaken to render financial statements misleading, sometimes called *management fraud....* Irregularities may involve acts such as the following:

- Manipulation, falsification, or alteration of accounting records or supporting documents from which financial statements are prepared

- Misrepresentation or intentional omission of events, transactions, or other significant information

- Intentional misapplication of accounting principles relating to amounts, classification, manner of presentation, or disclosure"

(AU § 316A.03)

Mr. Tillett erroneously attributes C&L's audit failures to such irregularities by AHERF'S management rather than C&L's failure to properly plan and perform its audits in accordance with GAAS. Mr. Tillett further suggests that the "skillfulness of the perpetrator" and the "extent of manipulation" somehow relieve the auditor of his responsibilities under GAAS.[13] To the contrary, although SAS 53 acknowledges that a properly-designed and executed audit may not detect a material irregularity, the SAS nonetheless requires the auditor to "exercise (a) due care in planning, performing and evaluating the results of audit procedures, and (b) the proper degree of professional skepticism *to achieve reasonable assurance that material errors or irregularities will be detected.*" **(AU § 316A.08)** Furthermore, "[b]ecause irregularities are intentional, they have implications beyond their direct monetary effect and the auditor needs to consider the implications for other aspects of the audit." **(AU § 316A.22)**

However, Mr. Tillett fails to acknowledge the auditor's specific responsibilities under GAAS and mistakenly asserts that C&L's failures to detect misstatements in AHERF's financial statements was largely attributable to "irregularities by management to intentionally misstate the financial statements."[14] In other words, according to Mr. Tillett, C&L's audit failures were somehow "excusable" because of management's alleged misrepresentations and/or omissions.

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[13] Tillett report, page 21.

[14] Tillett report, page 22.

To the contrary, GAAS does not support such an assertion. In particular, SAS 53 requires the auditor to "assess the risk that errors and irregularities may cause the financial statements to contain a material misstatement. Based on that assessment, the auditor should design the audit to provide reasonable assurance of detecting errors and irregularities that are material to the financial statements." **(AU § 316A.05)** Furthermore, paragraph 3 of the Appendix to SAS 53 indicates that the "detection of an irregularity [such as the improper transfer of reserves] requires consideration of the implications for the integrity of management or employees and the possible effect on other aspects of the audit." **(AU § 316A.34)**

Furthermore, Mr. Tillett fails to explain how any management misrepresentation and/or omission precluded C&L from detecting specific material misstatements that even he acknowledges were contained in AHERF' financial statements. In my opinion, the alleged misrepresentations and/or omissions discussed by Mr. Tillett did not preclude C&L from conducting its audit in accordance with GAAS. There is no evidence from the documents or testimony I have reviewed that management falsified documents or otherwise made it impossible, or even difficult, to conduct its audits in accordance with GAAS.

In conclusion, it is my opinion that neither actions of management to mislead nor failures to disclose certain information to the auditor relieves the auditor from its responsibility under GAAS. Therefore, Mr. Tillett's assertion that "C&L was precluded in its ability to detect material misstatements in connection with its audits"[15] as a result of management irregularities is erroneous.

<u>Other matters involving mischaracterization or misstatement of GAAP and GAAS</u>

In addition to its mischaracterization and/or misstatement of the responsibilities of the auditor and management in connection with an audit in accordance with GAAS, Mr. Tillett's report contains additional errors in the application and/or interpretation of GAAP and GAAS with respect to the following:

- Materiality, including materiality measures and the Summary of Unadjusted Differences ("SUD")
- Communications with the Audit Committee
- Prior period adjustments

The following section presents my comments and conclusions regarding those matters.

[15] Tillett report, page 5.

Materiality

Mr. Tillett asserts that my "opinions on materiality are based *solely* in relation to net income" which, Mr. Tillett claims, "is inconsistent with the [relevant accounting] guidance [set forth in his report]."[16] (emphasis added)

However, Mr. Tillett has completely misstated the opinions set forth in my report, which included, among other things, the following conclusions regarding materiality:

- Mr. Buettner's assessment of materiality based on "fund balance," apparently to the exclusion of other important evaluations, is erroneous.[17]

- Given the significance of operating results to the users of the financial statements of AHERF and its Obligated Groups and the nature of AHERF and its affiliates as essentially business organizations, neither GAAS nor C&L's own guidance provided any reasonable basis for C&L to conclude that a balance sheet measure, such as net assets (fund balance), should be the primary determinant of materiality with respect to AHERF's financial statements.[18]

Although balance sheet elements, such as net unrestricted assets or total net assets, may be appropriate in measuring materiality in some circumstances, they certainly do not represent the only financial statement elements that might be relevant to the auditor's assessment of materiality or to the entity's financial statement users. It is evident from the documents and testimony in the case that the primary users of the financial statements, including the Board of Trustees and AHERF's lenders, were acutely interested in the "bottom line" and trend of earnings. Therefore, assessing materiality primarily at the net asset (fund balance) level would cause significant adjustments to results of operations to be considered immaterial because AHERF and its affiliates and obligated groups were large organizations with significant amounts of net assets.

Furthermore, although Mr. Tillett acknowledges "that materiality judgments involve both quantitative and qualitative considerations,"[19] he fails to describe the qualitative considerations that entered into his assessment of materiality. Important qualitative considerations include, among other things, the environment in which the entity is operating, such as a highly-competitive healthcare market; the types and nature of the misstatements, such as transfers of reserves among affiliated entities to avoid charges to income; management's consistent failure to record audit adjustments that negatively impact the statement of operations; and, whether the misstatements turned an operating loss into an operating profit.

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[16] Tillett report, page 24.
[17] Berliner report, page 1-8.
[18] Berliner report, page 1-11.
[19] Tillett report, page 24.

Finally, as noted in my expert report, GAAP indicates that the "omission or misstatement of an item in a financial report is material if, in light of surrounding circumstances, the magnitude of the item is such that it is probable that the judgment of a reasonable person relying upon the report would have been changed or influenced by the inclusion or correction of the item."[20] In other words, the ultimate test of materiality is what users care about.

Summary of Unadjusted Differences

Mr. Tillett asserts that I have applied the rollover method when considering the effects of my adjusting entries and am using a method inconsistent with that used by C&L."[21] However, Mr. Tillett's assertion mischaracterizes my treatment of the effects of C&L's SUD entries. As indicated in my expert report, I used the rollover method to include the effects of the SUD entries in the quantification of misstatements, principally because the magnitude of the errors I detected necessitated restatement of AHERF's financial statements.[22] I did not suggest that C&L's use of the Iron Curtain method was, in itself, inappropriate.

Accordingly, Mr. Tillett's opinion that it was inappropriate for me to use "the rollover method to evaluate the effect of the SUD" is, quite simply, erroneous.

Communications with the Audit Committee

In determining what to disclose to the Audit Committee, Mr. Tillett asserts that C&L (a) "relied on their past experience with the Audit Committee; what they believed to be the Audit Committee's expectations; the sensitivity of the matter; and other business factors" and (b) "communicated more to the Audit Committee than [the Audit Committee] wanted."[23] As support for his assertions, Mr. Tillett cites C&L's management letters which, he states, "were provided to the Board of Trustees"[24] and "indicat[ed] items that C&L believed the Board of Trustees (the "Board") should be aware of and the issues facing AHERF."[25]

Although it appears that C&L's communications required by SAS 61, *Communications with Audit Committees*, contained the customary "boilerplate" language, neither C&L's management letters nor its required communications under SAS 61 contain disclosures of the $50 million reserve transfers from the Graduate hospitals to the DVOG hospitals. Mr. Tillett's rationale as to why the "$50 Million Reserve transfer...did not warrant communication to the audit committee" is that "C&L reasonably concluded...the transfers did not have a significant effect on the *consolidated* financial statements" and C&L "did not consider [the transfer] a material error or irregularity." (emphasis added)

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[20] Statement of Financial Accounting Concepts No. 2, *Qualitative Characteristics of Accounting Information* ("CON2"), paragraph 132.
[21] Tillett report, page 34.
[22] Berliner report, page 15-5.
[23] Tillett report, pages 37 and 39.
[24] The Board of Trustees included members of the Audit Committee.
[25] Tillett report, page 37.

To the contrary, it is my view that the improper transfer of $50 million of reserves between subsidiary entities lacked economic substance and was an intentional, material misstatement by AHERF's management of the separate operating results of AHERF's Obligated Groups. Therefore, as discussed previously, such transfer was an irregularity under SAS 53. As to auditor communications concerning errors and irregularities, SAS 53 states:

> For the audit committee to make informed judgments necessary to fulfill its responsibility for the oversight of financial reporting, the auditor should *assure* himself that the audit committee is adequately informed about any irregularities of which the auditor becomes aware during the audit *unless those irregularities are clearly inconsequential*. For example, a minor defalcation by an employee at a low level in the organization might be considered inconsequential. However, irregularities involving senior management of which the auditor becomes aware *should be* reported directly to the audit committee.... (emphasis added)
> **(AU § 316A.28)**

Mr. Tillett makes still another extreme attempt to absolve C&L from any blame for not disclosing the reserve transfer to the Audit Committee by suggesting that the *$50 million* reserve transfers were irrelevant. However, the very fact that management thought the $50 million transfer was necessary in itself makes it relevant. In addition, Mr. Tillett's rationale that "AHERF's deteriorating financial condition, poor performance, declining cash flows and challenges ahead were adequately disclosed to management and the Board in the consolidated financial statements and provided sufficient warnings to the users of the financial statements that AHERF and its affiliates could have difficulties satisfying their obligations"[26] is flawed. In essence, then, Mr. Tillett is saying that the Board and Audit Committee had all the financial information it needed concerning the financial condition of AHERF and, therefore, further communications from C&L were unnecessary.

Thus, in addition to management's improprieties, the Audit Committee was also culpable, in Mr. Tillett's view, for C&L's audit failure because they knew there was trouble and didn't do anything about it. However, not all of the foregoing matters listed by Mr. Tillett are "disclosed in the financial statements." Furthermore, the matters not disclosed by C&L to the Audit Committee, including the reserve transfers, concealed the true seriousness of AHERF's "deteriorating financial condition." Indeed, the very reason the reserve transfers were made was to avoid the recognition of bad debt expense.

In summary, C&L's decision to withhold disclosure of the reserve transfers from the Audit Committee is contrary to GAAS, and, therefore, Mr. Tillett's opinion that the "$50 Million Reserve transfer...did not warrant disclosure to the audit committee" is erroneous.

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[26] Tillett report, page 42.

Prior period adjustments

Mr. Tillett stresses the fact that, under GAAP, prior period adjustments "are rare in modern financial accounting."[27] As a guiding principle for entities that endeavor to prepare financial statements in conformity with GAAP, I do not disagree with that accounting concept. However, the notion that prior period adjustments *should be* rare assumes that the reporting entity has not engaged in a pattern of "earnings management" as was the case at AHERF. In such an environment, the common misuse of facts to manage earnings requires correction of errors or irregularities to be accounted for as prior period adjustments.

Mr. Tillett asserts that "[m]any of the items that [I] allege to be errors simply involve changes in estimates that are necessary when evaluating patient accounts receivable of a healthcare entity."[28] However, Mr. Tillett fails to understand the conclusions set forth in my expert report that prior period adjustments are errors or irregularities attributable to the misuse of facts that existed at the balance sheet date or arose from improper application of accounting principles—as distinguished from accounting estimates. Accordingly, Mr. Tillett's conclusion that many of the "restatement" items contained in my expert and supplementary expert reports are simply changes in estimates is erroneous.

Other Matters

In addition to the conceptual matters discussed above, I disagree with Mr. Tillett regarding a number of other conclusions set forth in his report. The principal bases for my disagreements are set forth in the sections that follow.

FY '96 Allowance for uncollectible accounts ("bad debt reserve") and bad debt expense

- Reserve methodologies

  Mr. Tillett asserts that I have merely gone through the mathematical exercise of applying loss percentages to patient accounts receivable aging categories without consideration of historical trends or industry data and experience.[29] To the contrary, the estimates to which Mr. Tillett refers were based upon historical trends, industry data and experience, and market conditions, as reflected in information and data in AHERF documents and/or provided by AHERF personnel in deposition testimony.

  In Mr. Tillett's opinion, the allowances for uncollectible accounts that I calculated are unreasonable in comparison to historical DVOG amounts and the market in which the hospitals were operating.[30] Mr. Tillett fails to recognize that existing facts and circumstances, including the consolidation of the billing function in Pittsburgh, negated, in significant measure, the applicability of historical

[27] SFAS 16, *Prior Period Adjustments*, paragraph 1.
[28] Tillett report, page 16.
[29] Tillett report, page 62.
[30] Tillett report, page 62.

relationships (for example, reserves to receivables or bad debt expense to revenue). Such historical relationships failed to reflect the continued deterioration in DVOG's receivables as well as its continuing failure to provide an adequate bad debt reserve and properly provide for bad debt expense. C&L's workpapers and testimony of AHERF's accounting and Patient Financial Services Group ("PFSG") personnel indicate that the historical reserve rates and bad debt reserve methodologies (whether historical statistics were used or not) were inadequate. **[Snow 302:16-344:4; Franz 378:6-394:10; and Laing 281:13-285:13 and 293:20-295:24]** Mr. Tillett also fails to recognize that historical rates were distorted because even C&L concluded that DVOG's bad debt reserve and bad debt expense were understated. C&L's SUD entry proposed increasing such reserves by $7.5 million as of June 30, 1995, which AHERF did not record, and C&L's discussions with management resulted in the $17.5 million recorded increase in DVOG reserves as of June 30, 1996.

Mr. Tillett further asserts that "it would not have been reasonable to simply apply the AGH loss percentages to the DVOG hospitals' accounts receivable agings and have that result be the determinative factor in C&L's evaluation of the allowance for uncollectible accounts during their audits of the financial statements...."[31] However, as indicated in Table 10 of Mr. Tillett's report, the application of AGH rates was but one of several methodologies that I used to independently estimate the allowance for uncollectible accounts. In fact, C&L itself had planned to perform the procedure in 1996 but did not, even though applying the AGH reserve rates to DVOG aging buckets caused C&L to believe that DVOG's allowance was understated as of June 30, 1995. Indeed, C&L had recommended to AHERF in its FY'95 management letter that "the current methodology utilized by AGH should be considered for application at all AHERF hospitals." **[Ex. 7]**

Furthermore, DVOG's extensive registration and billing (and rebilling) problems adversely affected the realizability of DVOG's receivables. **[Franz 427:21-430:10; Snow 346:12-20]** These problems were further exacerbated by AHERF's decision to consolidate the accounts receivable functions in Pittsburgh. **[Buettner 45:11-47:5, 145:8-148:3]** In addition, DVOG's receivables, in actuality, were older in every aging bucket than AGH's. However, they were not reflected as being older (as C&L noted in its FY'96 workpapers) because rather than being aged from discharge date, as was the case at AGH, DVOG revised its aging methodology in FY'96 to age its inpatient accounts from final billed date[32] and its outpatient accounts from date of last collection (which classified an outpatient account of any age as current even if only $1 were collected). **[Snow 345:16-347:18; Franz 284:13-289:10]**

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[31] Tillett report, page 56.

[32] Mr. Snow testified that "if you rebill an account it would reage the account in the billing system...if you had an account that was 360 days old, and you rebilled it, the aging on that account would be zero or one day" rather than 360 days. As to the effect of rebilling on bad debt reserves, Mr. Snow testified that "[i]f bad debt reserves were based on aging, then by reaging the account, yes, it would have lowered the bad debt reserves." **[Snow 345:16-346:8, 347:3-6]**

- Past statute accounts

Mr. Tillett asserts that "C&L performed extensive work in this area and did not identify or conclude that there were significant accounts that were past statute. The bases for [Mr. Berliner's] conclusions seem to be based on the premise that accounts greater than 365 days old are automatically past statute. This is not correct."[33] Mr. Tillett's premise is unfounded. Nowhere in my expert report did I assert that accounts over 365 days were automatically past statute.

Past statute accounts were only one consideration in my analysis of the adequacy of AHERF's bad debt reserves as of June 30, 1996. Among other things, I considered the testimony of PFSG personnel, including Lora Franz and Greg Snow. They testified that accounts over a year old were highly likely to be uncollectible[34] either because they were overstated or past statute, insufficient information existed to correctly rebill accounts that had been billed incorrectly, collection attempts had become minimal as PFSG and outsourcers focused on collecting larger, newer, or more easily collectible accounts, or they deemed any further collection attempts to be futile. **[Franz 120:17-121:14, 166:6-169:22, 290:5-294:17 and 375:7-378:5; and Snow 83:13-84:13, 159:12-162:10, 244:10-245:13, 252:8-257:8]** Thus, in addition to mischaracterizing my conclusions, Mr. Tillett ignores the deposition testimony of experienced PFSG personnel directly responsible for collection and management of DVOG's accounts receivable.

Mr. Tillett asserts that "C&L utilized a specialist from its Health Care Regulatory Group, to assist with the evaluation of the billing function at the DVOG hospitals."[35] However, Mr. Kaliszewski, an HCRG manager/specialist assigned to direct HCRG's AHERF assignment, testified that his consulting team did not perform work with respect to either the collectibility of accounts receivable or the adequacy of the bad debt reserves on the books of the various AHERF entities. **[Kaliszewski 43:17-46:13]**

- C&L's independent analysis of AHERF's bad debt reserves

Mr. Tillett asserts that "C&L performed procedures to develop an independent expectation of the estimate to corroborate the reasonableness of AHERF management's estimate as required by GAAS"[36] and that, therefore, my conclusion "that C&L failed to develop an independent expectation of the allowance for uncollectible accounts…is not correct."[37] Contrary to Mr. Tillett's suggestion, the simple fact is that nowhere in C&L's workpapers did I find any

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[33] Tillett report, page 58.
[34] Mr. Buettner also testified that Mr. Kirstein, as expressed in his letter **[Ex. 1448]** had "a concern with the collectibility of A/R over 180 days old. That is one additional factor that we looked at that led us to believe that the reserve—reserve level should be enhanced." **[Buettner 150:10-14]**
[35] Tillett report, page 58.
[36] Tillett report, page 54.
[37] Tillett report, page 58.

documentation indicating that it had, in fact, developed an independent expectation of the estimate, and Mr. Tillett does not cite any.

Furthermore, neither Messrs. Buettner nor Kirsten had a reasonable explanation of how they arrived at the determination that AHERF's bad debt reserve was understated by $15-20 million. In my experience, whether or not the client records the adjustment, it is inappropriate and unusual for such a large proposed adjustment not to be documented and explained in the workpapers. **[Buettner 245:13-249:20]**

- The $17.5 million bad debt reserve adjustment

  Mr. Tillett asserts the following:

  > [Mr. Berliner] alleged that AHERF violated GAAP by failing to record the entire increase in the allowance for uncollectible accounts as a charge to income (bad debt expense) and that C&L violated GAAS by allowing AHERF to do so.[38] I disagree. As discussed previously in this report, it is common for an entity to combine the effect of several journal entries into one. The auditor is not responsible for evaluating and opining on the bookkeeping of an organization. Rather, the auditor is responsible for assessing whether the entries caused the financial statements to be materially misstated.[39]

  While Mr. Tillett is correct that the auditor's opinion does not address the adequacy of the entity's "bookkeeping" policies and procedures, he overlooks the auditor's need to be aware that the "netting" of entries to circumvent internal controls is one method of concealing misstatements in the financial statements.

- Information withheld from C&L by AHERF management

  It is Mr. Tillett's opinion that "information that AHERF management withheld from C&L would have been significant to C&L's evaluation relative to patient accounts receivable and related allowance for uncollectible accounts in connection with their audit of the 1996 financial statements."[40] As support for his opinion, Mr. Tillett paraphrases the deposition testimony of Mr. Snow as follows:

  > Mr. Snow testified he did not communicate this information[41] to C&L because he thought he would be "fired." Mr. Snow further implied he would only provide relevant information if asked and before he provided the information he would have to get "clearance to provide it."[42]

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[38] Berliner report, page 8-3.
[39] Tillett report, page 68.
[40] Tillett report, page 70.
[41] Mr. Snow testified that "the patient accounting department had identified approximately $50 million of accounts receivable that were uncollectible." **[Snow 122:6-9]**
[42] Tillett report, page 70.

However, Mr. Snow said more at his deposition. When asked if he believed that he was prohibited from sharing "internal information with anyone from the outside," he testified:

> "No. If information was requested, then I would provide it or attempt to get clearance to provide it, but I was not going to volunteer any information." **[Snow 124:6-9]**

Mr. Snow could not have expressed his belief any clearer in testifying that there were two reasons for his not disclosing such information to C&L: "Number one,...if I had divulged that information directly, I would have been, in my opinion, terminated. And the second thing, they never asked." **[Snow 407:18-22]** Notwithstanding the apprehension of AHERF personnel to "volunteer information," it is my view that C&L had a responsibility to make inquiries of key operating personnel, particularly those responsible for accounts receivable billing and collection. Furthermore, had C&L made inquiries of PFSG personnel, any failure to respond would have been a red flag requiring further investigation.

Mr. Tillett also cites a June 30, 1996 memorandum from Mr. Laing as support for his opinion that management withheld information. Mr. Laing's memo discusses C&L's request that AHERF provide selected patient account information for it to test:

> I would recommend that all interested parties be apprised of the expectations [of C&L's possible findings] as noted above, <u>before proceeding to make the requested information available to C&L</u> (emphasis added). I do not take any exception to what they have proposed to do by way of their audit approach, but merely note that under the circumstances it may not be an effective use of their (or our own) time given the expected results.[43]

With respect to this memo, Mr. Laing testified that "what struck me as...being not very useful in their approach was that they were spending so much effort trying to test these internal transactions during a time when we were experiencing a lot of organizational change, as opposed to focusing on validating the year-end balances of those accounts...." **[Laing 245:22-246:3]** Therefore, the memo was written to discuss whether C&L's planned interim procedures were effective, as the memo states, because the receivables were in such bad condition that the audit approach he thought more beneficial, based on his prior experience as a C&L auditor, would be to perform procedures designed to substantiate year-end receivable balances.

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[43] Tillett report, page 71; emphasis had been added by Mr. Tillett.

Mr. Laing also testified that he would have expressed his concerns over his perceived inadequacy of the bad debt reserves to C&L if he had been asked. **[Laing 95:4-11]**

Mr. Tillett's citation of this testimony and corporate memo is an excellent example of his failure to understand the auditor's responsibility to, among other things, obtain competent evidential matter by making appropriate inquiries of client personnel. C&L failed to ask appropriate personnel the right questions with respect to collectibility of receivables and, correspondingly, the adequacy of AHERF's bad debt reserves. Instead, it limited its inquiries to Accounting personnel and failed to direct inquiries to PFSG personnel, such as Messrs. Snow and Laing and Ms. Franz, who were directly responsible for the billing and collection of patient accounts receivable, and for maintaining individual patient account balances, including adjustments and corrections thereof during FY'96 (and FY'97).

In his effort to blame AHERF for withholding information, Mr. Tillett ignores the information that was furnished to C&L, including the DVOG aging reports as of March 31, 1996 and June 30, 1996. Based upon its review of these reports, C&L noted that agings had continued to deteriorate from prior years, but failed to adequately respond to obvious questions of collectibility portrayed by them. Nothing prevented C&L from independently determining that reserve rates and other assumptions inherent in DVOG's accounting estimates for bad debt reserves on patient accounts receivable, especially pertaining to older accounts receivable, were unreasonable.

<u>FY '97 bad debt reserve and bad debt expense</u>

- <u>The $80 million write-off of patient receivables</u>

Mr. Tillett states the following:

> The $80 Million Write-off was a decision made by AHERF senior management and represented a change in management's intentions during fiscal year 1997 and after the issuance of the 1996 financial statements. Changes in management's intentions give rise to changes in estimates and should not be recorded as prior period adjustments. Therefore, C&L reasonably concluded the effect of write-off was properly accounted for in fiscal 1997 as a change in accounting estimate, not as a prior period adjustment.[44]

Management knew the accounts were uncollectible as of June 30, 1996, but failed to adjust them to net realizable value. **[Spargo 125:11-20, 142:7-145:18 and 148:11-150:14; Snow 122:5-20, 156:8-157:7, 166:7-20 and 359:17-362:5; Franz 107:22-111:8; and Fox 128:10-129:25]** The fact that management waited

[44] Tillett report, page 81.

until FY'97 to make the write-offs was not a result of changed circumstances requiring recognition in FY'97 but, instead, an acknowledgement of facts and circumstances that existed in FY'96, including the effects of management's directives to not write-off accounts.[45]

Mr. Tillett also asserts that "[i]t is further apparent that many of the accounts written-off as a result of this unusual management decision were, in fact, collectible had AHERF management decided to pursue collection more vigorously, rather than performing a mass write-off."[46] However, this assertion represents pure speculation by him and is unsupported by the facts. Documents produced and testimony given indicate that AHERF and its collection outsourcers had given up on these accounts and that only a few million dollars of the $80 million written off were ever recovered. **[Ex. 4248 at 010266, K-L; 010278, K-L; 010290, L-M; 010294, E-F; 010306, K-L; Snow 252:8-257:8; and Franz 290:5-294:17]** Indeed, it was in recognition of the possible recovery of some of the delinquent accounts that I estimated the bad debt reserve as of June 30, 1996 based on 95% (rather than 100%) of total receivables over 365 days old.

Mr. Tillett attempts to support his hypothetical assertion that many accounts written off were collectible by stating that Mr. Cancelmi acknowledged that accounts being written off were in fact collectible. As support, he cites Mr. Cancelmi's September 24, 1996 memo which states:

> Furthermore, any future collections on the accounts to be written off of $81,452 would also increase our bad debt reserve as of June 30, 1997.[47]

There is no reason to believe that Mr. Cancelmi or others at AHERF thought that any significant amount of collections would come from these receivables. In fact, Mr. Cancelmi candidly recognized that the older accounts were uncollectible. In that September 24, 1996 memo cited by Mr. Tillett, which was addressed to Mr. Spargo and issued to discuss the effects on DVOG's bad debt reserves of writing off $81,452,000 of DVOG entities' inpatient and outpatient accounts, he wrote:

> "I believe it is fair to state that there is a pool of old receivables that we will not be able to collect." **[Ex. 29]**

Mr. Cancelmi's view as to the appropriate accounting for hypothetical (i.e., "future") collections is irrelevant to whether or not the receivables written off were indeed still collectible. Not only has Mr. Tillett failed to provide any support for his assertion that many of the $81 million of written off accounts were collectible, but he ignores the practical realities of the existing facts and

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[45] Mr. Snow's October 2, 1995 memo to Mr. Dionisio stated: "This memo will serve to confirm the discussion on Friday, September 29, 1995 at Mr. McConnell's staff meeting. My instructions were as follows: 'Do not write-off any amounts with dates of service prior to July 1, 1995 for any reason.'..." **[Ex. 822]**

[46] Tillett report, page 80.

[47] Tillett report, page 80.

circumstances, documentary evidence to the contrary, and extensive testimony from knowledgeable individuals bearing directly on the subject.

- The $50 million bad debt reserve transfers

Mr. Tillett asserts that "C&L senior team members have testified that they objected to the accounting for these transfers and requested the accounting entries for the transfers be reversed."[48] There is nothing in C&L's audit workpapers to document this position; not only did C&L fail to propose an adjustment to reverse the transfers, it also failed to inform the Audit Committee of them.

The only evidence produced that C&L performed an analysis is Mr. Buettner's handwritten notes, which are undated, and which were not included in the audit workpapers but were produced from his personal files. Therefore, C&L failed to comply with SAS 41, *Working Papers*, which states:

> The information contained in the working papers constitutes the principal record of the work that the auditor has done and the conclusions he has reached concerning significant matters. **(AU § 339.01)**
>
> Working papers are records kept by the auditor of the procedures applied, the tests performed, the information obtained, and the pertinent conclusions reached in the engagement. **(AU § 339.03)**

Thus, C&L's failure to properly document in its workpapers the $50 million reserve transfers violated these basic tenets of SAS 41.

Furthermore, C&L violated GAAS by failing to disclose to the Audit Committee its disagreement with management, as characterized by Mr. Tillett, regarding the bad debt reserve transfers. SAS 61 states:

> Disagreements with management may occasionally arise over the application of accounting principles to the entity's specific transactions and events and the basis for management's judgments about accounting estimates. Disagreements may also arise regarding the scope of the audit, disclosures to be included in the entity's financial statements, and the wording of the auditor's report. The auditor should discuss with the audit committee any disagreements with management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be *significant* to the entity's financial statements or the auditor's report.... (emphasis added) **(AU § 380.11)**

The transfer of bad debt reserves among subsidiary entities, which C&L itself and Mr. Tillett acknowledged was improper,[49] was significant to both AHERF's

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[48] Tillett report, page 89.
[49] Tillett report, pages 89 & 91.

consolidated financial statements and the individual financial information of its obligated groups. Indeed, such entries would fail to pass any reasonable "smell" test. Mr. Buettner sought to rationalize them by attempting to "pull rabbits out of a hat" (i.e., his handwritten notes). Such unusual bad debt reserve transfers called for more than a minor whimper by C&L about improprieties. They should have heightened C&L's professional skepticism about management's true objectives, alerted C&L to the possibility that additional improper transfers were made, and compelled it to uphold its reporting responsibility to the Audit Committee.

- The $49.6 million reserve and other account transfers

  Mr. Tillett acknowledges that the $49.6 million of Graduate entities' reserve "transfers" to DVOG entities in May and June 1997 were inappropriate, that they involved many accounts, and that components thereof were reflected on schedules given to C&L.[50] However, he absolves C&L of any responsibility for detection thereof because management allegedly failed to inform C&L about them. This further illustrates Mr. Tillett's failure to understand the respective roles of management and the auditor.

  As discussed earlier, it is the responsibility of the auditor to perform effective audit procedures to gain reasonable assurance that the financial statements are free of material misstatement. As set forth in my expert report, C&L did not do so, failed to objectively evaluate audit evidence pertaining to the $49.6 million of improper transfers in both the DVOG and Graduate entities' books and records, failed to investigate if more than the identified $50 million of bad debt reserve transfers between obligated groups had been made (i.e., failed to heighten its professional skepticism to an appropriate degree based on its knowledge about the first $50 million of transfers), performed ineffective analytical procedures, and relied unduly on alleged management representations.

  In any event, nothing raised by Mr. Tillett in his report supports the notion that C&L was precluded from discovering and properly responding to the "undisclosed" $49.6 million of improper transfers. For example, C&L's failure to properly investigate large and unusual increases in DVOG's bad debt reserves identified as "bad debt shortfall adjustments" on bad debt reserve rollforward analyses, which were prepared by AHERF and included in C&L's audit workpapers, cannot be blamed on management.

Compliance with debt covenants

In connection with AHERF's (and its obligated groups') compliance with debt covenants, Mr. Tillett asserts the following:

> The auditor's responsibility is to plan and perform its audits to obtain reasonable assurance that the financial statements are free from material misstatement. In

[50] Tillett report, pages 94-95.

> performing its audit to obtain such assurance, an auditor typically performs tests of an entity's compliance with debt covenants. The auditor performs recalculations of the covenants and agrees the underlying numbers used in the calculations to information gathered by the auditor during the course of his audit, on a test basis. However, the responsibility of reviewing and interpreting the underlying debt agreements is the responsibility of management and its legal counsel. The interpretation of the language in a debt covenant is a legal question that an auditor is not qualified to answer. The extent to which the auditor reviews and analyzes the underlying debt agreements is a matter of professional judgment.[51]

Although it is true that the auditor is solely responsible for its opinion on the financial statements, Mr. Tillett's assertions mischaracterize the auditor's responsibilities under GAAS for a number of reasons. SAS 31 states that "[m]ost of the independent auditor's work in forming his opinion on financial statements consists of obtaining and evaluating evidential matter concerning the assertions in such financial statements."[52]

With respect to an entity's debt, an important aspect of obtaining sufficient competent evidential matter is obtaining a proper understanding of the debt agreements. Without such understanding the auditor would be unable to (i) design adequate audit procedures (ii) assess compliance with loan covenants and (iii) draw valid conclusion regarding proper classification of debt. In fact, C&L's audit workpapers contain an audit procedure to "[o]btain an understanding of debt covenants currently in effect, including amendments and modifications." This indicates that C&L determined this was a necessary audit step to enable it to render an opinion that AHERF's financial statements were fairly presented in all material respects in conformity with GAAP. Furthermore, long-term debt was material to AHERF's financial statements. Consequently, compliance with the debt covenants was material to AHERF's ability to continue as a going concern because non-compliance could result in an event of default, thereby causing the debt to be callable by the lenders.

Although an auditor is permitted by GAAS to utilize the services of a third-party specialist, such as an attorney, to assist in obtaining and evaluating evidential matter, the auditor is solely responsible for determining the sufficiency and competence of such evidential matter in forming its opinion on the financial statements. To suggest otherwise is to suggest that the auditor can abdicate its responsibility to the client or third-party specialist.

As documented in its workpapers, C&L issued various reports[53] regarding AHERF's compliance with debt covenants; for example, C&L's September 11, 1996 debt compliance letter issued to AGH's Board of Trustees stated that "nothing came to our attention that caused us to believe that the Obligated Group was not in compliance with

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[51] Tillett report, pages 137-138.

[52] Financial statement assertions include existence or occurrence, completeness, rights and obligations, valuation or allocation, and presentation and disclosure.

[53] The auditor's responsibilities in connection with the issuance of such reports are covered in SAS 62, *Special Reports*.

the covenants ...."[54] Such language was typically included in C&L's debt compliance letters. Thus, C&L's audit program and its special reports on AHERF's compliance with its debt covenants are contrary to Mr. Tillett's assertion that management and its legal counsel (and not the auditor) are responsible for reviewing and interpreting the underlying debt agreements.

In a final attempt to justify C&L's failure to detect and report on AHERF's (and its obligated groups') non-compliance with debt covenants in a timely manner, Mr. Tillett argues that even "assuming [that the] $50 million [reserve transfer] was expensed at the DVOG...there would not have been a covenant violation." However, Mr. Tillett's calculation on page 93 of his report fails to include the additional $49.6 million of improper transfers discussed in my expert report and elsewhere herein. Had Mr. Tillett properly included the effects of the misstatements reflected in my expert report, his calculations would have reflected a violation of DVOG's FY '97 *Debt Service Coverage Ratio.*

Finally, in note 271 of his report, Mr. Tillett asserts that "the C&L audit team utilized the concurring partner assigned to the engagement, Jeffrey Hoover, to discuss the effect of the $50 Million Reserve Transfer on the consolidated financial statements." However, Mr. Hoover testified that he does not "recall an issue regarding a transfer as part of my concurring partner review. No, I don't recall that issue being reviewed with me." **[Hoover SEC 163:5-164:3]**

I have also reviewed the November 9, 2004 Expert Report of Robert P. Mitchell, Esq. Among other things, Mr. Mitchell opines that "it was certainly reasonable for Coopers & Lybrand to rely on the legal opinions of Foley & Lardner with respect to ... the consequences of a violation of the debt service coverage ratio under the ... Centennial Master Indentures."[55]

As indicated above, I disagree with Mr. Mitchell's opinion because I believe that the question of whether or not it is reasonable for C&L to have relied on the legal opinions of Foley & Lardner is an auditing issue to be decided by the auditor based upon the relevant facts and circumstances. As applied here, it was unreasonable for C&L to rely on the Foley & Lardner opinion because, among other things, C&L was fully aware that the bond trustee had taken a position in conflict with the substance of the Foley & Lardner opinion.

<u>Consolidating and Combining Information</u>

Mr. Tillett opines that "the presentation of the $50 Million Reserve Transfer in the consolidating information columns had no effect on the reported net assets or net income for any obligated group."[56] As support for his erroneous opinion, Mr. Tillett cites the testimony of Ms. Frazier in the SEC's Civil Action. However, the cited testimony given

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[54] Exhibit 187 of Mr. Tillett's report.
[55] Mitchell report, pages 5-6.
[56] Tillett report, page 91.

by Ms. Frazier provides no substantiation of Mr. Tillett's opinion.[57] Furthermore, there is no evidence in C&L's workpapers that it ever quantified the impact of the misstatements on either the DVOG or Graduate entities (i.e., Allegheny Hospitals, Centennial) obligated group arising from the $50 million "transfer" of bad debt reserves.

Endowments

Mr. Tillett asserts that information that "AHERF management withheld from C&L would have been significant to C&L's evaluation relative to the classification of the Lockhart Trust Funds in connection with their audits of the 1996 and 1997 consolidated financial statements."[58] However, Mr. Tillett fails to consider that professional skepticism and adequate audit procedures, including analysis of the Lockhart Trust ("Trust" or "Funds") documents by experienced personnel, would have disclosed the failure of AHERF to comply with GAAP in reporting the classification of net assets.

Mr. Tillett also fails to explain how any management misrepresentation and/or omission precluded C&L from being able to detect the material misclassifications of net assets related to the Funds. As Mr. Tillett acknowledges in his report,[59] there is no evidence that C&L *was not provided* the most important documents (the Trust agreements themselves) considered necessary to properly audit the propriety of management's classifications of net assets. In fact, C&L's workpapers clearly indicate that C&L *was provided* the Trust agreements.[60]

Mr. Tillett further asserts that "[w]hen an auditor updates permanent files, he does not necessarily review and analyze each document maintained in the file. Rather, updating the permanent files means adding new documents obtained in the current year and typically removing documents that are no longer relevant to the audit."[61] Mr. Tillett's assertion represents a gross misunderstanding of the auditor's responsibilities in connection with the audit of a not-for-profit entity's classification of net assets.

In addition, the adoption of major new accounting standards for not-for-profit organizations[62] required increased professional skepticism and due care. Those standards mandated the reading of the relevant Trust documents by experienced professional staff to assess the client's proper classification of net assets in conformity with the new standards rather than assigning such review and audit procedures to staff with relatively little experience in reading and interpreting trust documents. Accordingly, C&L should have recognized the need for expanded audit procedures rather than simply relying on a "discussion with management" and obtaining a management representation letter to substantiate AHERF's compliance with the new not-for-profit accounting standards.

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[57] Frazier 249:1-256:24.
[58] Tillett report, page 7.
[59] Tillett report, page 132.
[60] Ex. 4109 at EXH0404945 indicates that C&L "reviewed the endowment agreements."
[61] Tillett report, page 128.
[62] SFAS No. 116, *Accounting for Contributions Received and Contributions Made* ("SFAS 116"); SFAS No. 117, *Financial Statements of Not-for-Profit Organizations* ("SFAS 117"); and SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations* ("SFAS 124").

Furthermore, Mr. Panucci's testimony indicates that he did not have the requisite not-for-profit experience to perform the critical analysis necessary to assess management's assertions regarding the classification of AHERF's investments and net assets.

Mr. Tillett states that C&L, among other things, "review[ed] *available* trust documentation provided and maintained by AHERF to support management's classifications."[63] (emphasis added) Although he acknowledges that he "does not know what documentation was provided"[64] to C&L, Mr. Tillett refers to auditor testimony suggesting that Trust documentation made available to C&L did not contain all of the language relevant to a determination of the proper classification of net assets pertaining to the Funds.

GAAS requires the auditor to obtain sufficient competent evidential matter, which should include a complete set of executed trust documents. Accordingly, incomplete or unexecuted documents do not constitute sufficient competent evidential matter, particularly in connection with the adoption of SFAS 116, 117 and 124. Furthermore, the unavailability of a complete set of documents would not only raise questions about management's integrity and/or control procedures but also make it extremely difficult if not impossible to ascertain the proper classification of net assets.[65] Contrary to Mr. Tillett's opinion that C&L "had no responsibility to contact the Trustee,"[66] the failure to confirm significant provisions of the trust agreements directly with the Trustee was inexcusable if C&L were unable to obtain a complete set of executed documents from AHERF.[67]

Mr. Tillett further asserts that C&L fulfilled its responsibilities under GAAS by meeting with AHERF's management to discuss net asset classification.[68] However, as stated previously, the auditor is responsible for obtaining sufficient competent evidential matter.

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[63] Tillett report, page 130.
[64] Tillett report, page 132.
[65] AICPA AAG, *Not-for-Profit Organizations*, states that: "Not-for-profit organizations that receive significant amounts of contributions should have an accounting system, along with controls built into that system, for recording the receipt and collection of contributions. Internal control should also provide reasonable assurance that revenues arising from conditional promises to give are recognized when the conditions have been substantially met and that restrictions on contributions are recognized in the appropriate net asset class. The absence of such an accounting system and related controls might make it difficult for the auditor to obtain the necessary assurance about the completeness assertion and the presentation and disclosure assertion for contribution revenues and receivables and net assets. Accordingly, the auditor's assessment of control risk with respect to assertions related to contribution revenues and receivables may constitute a major activity in the planning process." **(AAG-NP0 5.83)**
[66] Tillett report, pages 130-131.
[67] AICPA AAG, *Not-for-Profit Organizations*, states that "Receivables are usually confirmed principally to provide evidence about the existence/occurrence assertion. FASB Statement No. 116 specifies that for a promise to give to be recognized in financial statements there must be sufficient evidence in the form of verifiable documentation that a promise was received. *If the documentation is not present, an asset should not be recognized.* The verifiable documentation required by FASB Statement No. 116 for recognition of promises to give may not be sufficient evidence concerning the existence/occurrence assertion. Confirming recorded promises to give (contributions receivable) may provide additional evidence about the existence of promises to give, the existence or absence of restrictions, the existence or absence of conditions, and the periods over which the promises to give become due." (emphasis added) **(AAG-NPO 5.85)**
[68] Tillett report, page 132.

In my experience, the auditor's procedures would typically include the reading of trust documents and direct confirmation with the Trustee. Furthermore, the failure of C&L to obtain sufficient competent evidential matter, in the form of complete and executed documents, represents yet another example of C&L's over-reliance on management representations.

Mr. Tillett asserts that he has "seen no evidence that C&L was even informed that AHERF management had questions concerning the classification of the [Trusts] under the new accounting standards."[69] However, Mr. Tillett ignores the fact that Ms. Frazier acknowledged in deposition testimony that "the interpretation of the agreements [was] not clear as to whether or not the income was available for operations."[70] **[Frazier 390:17-19]** In any event, Mr. Tillett provides no explanation as to how any management misrepresentation and/or omission relevant to the classification of net assets pertaining to the Trusts precluded C&L from conducting its audit in accordance with GAAS.

Finally, Mr. Tillett states that he "[did] not know what specific paragraphs, articles or other documentation AHERF management relied on when making their initial classification of the Lockhart Trust Funds in connection with their adoption of the new accounting standards. Nor [did he] know what documentation was provided to Mr. Panucci to support AHERF management's classification."[71] Accordingly, Mr. Tillett has no basis for concluding that "C&L's audit procedures with respect to AHERF management's classification of contributions received in accordance with the new accounting standards were performed in accordance with GAAS."

Robert W. Berliner

Robert W. Berliner

[69] Tillett report, page 135.
[70] Ms. Frazier defined income as "unrealized, realized gains and interest income, dividends and earnings" or "anything that wasn't the original contribution." **[Frazier 391:22-392:10]**
[71] Tillett report, page 132.

SECOND SUPPLEMENTARY AND REBUTTAL EXPERT REPORT OF ROBERT W. BERLINER, CPA

RE: AHERF OFFICIAL COMMITTEE OF UNSECURED CREDITORS V. PRICEWATERHOUSECOOPERS LLP

(Civil Action No. 00-684)

JANUARY 11, 2005

SECOND SUPPLEMENTARY AND REBUTTAL EXPERT REPORT OF ROBERT W. BERLINER, CPA

RE: AHERF OFFICIAL COMMITTEE OF UNSECURED CREDITORS V. PRICEWATERHOUSECOOPERS LLP

January 11, 2005

This report supplements my expert report and supplementary expert report, both issued under date of September 3, 2004, and rebuts the opinions expressed by J. W. Tillett, Jr. in his expert report of November 12, 2004.

I disagree with Mr. Tillett's opinions and reaffirm the opinions expressed in my expert report and the information provided in my first supplementary expert report.

The principal bases for my disagreement with Mr. Tillett are set forth in my expert and supplementary expert reports and in the sections that follow.

<u>Responsibilities of the auditor in an audit performed in accordance with GAAS</u>

Before turning to Mr. Tillett's specific conclusions with respect to various of the matters set forth in my expert reports, I will address a conceptual underpinning, indeed a theme, that permeates Mr. Tillett's report. In his attempts to rebut the opinions expressed in my expert reports and to hold C&L blameless for its audits of AHERF's materially misstated financial statements, Mr. Tillett repeatedly asserts that "AHERF management failed to meet its obligation to C&L as set forth in the AICPA professional standards… [and]…withheld from C&L [information that] would have been significant to C&L's evaluation" of management's assertions inherent in the financial statements."[1] As a result, according to Mr. Tillett, "C&L was *precluded* in its ability to detect material misstatements in connection with its audits."[2] (emphasis added)

In drawing this erroneous conclusion, Mr. Tillett improperly reverses the roles of management and the auditor and completely distorts GAAS by attempting to shift to management much of the responsibility for C&L's failed audits. GAAS, however, addresses management's responsibility only in terms of the financial statements, not in terms of the audit thereof or of management's obligations *to the auditor*.

The following excerpt from Mr. Tillett's report further misstates GAAS in terms of the auditor's knowledge of financial statement components:

> Under GAAS, an entity's transactions and related assets, liabilities, and equity (or, in the case of a not-for-profit entity such as AHERF, net assets) are within the direct knowledge and control of management. The independent auditors'

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[1] Tillett report, page 5.
[2] Tillett report, page 5.

> knowledge of these financial statement components therefore is indirect and filtered through: a) the limitations of an audit, which preclude testing on a one hundred percent basis, and b) management's representations to the independent auditors regarding assumptions that may be built into the financial statements, along with management's intent with respect to the future development of existing conditions.[3]

In fact, GAAS is silent as to the "filtering" of the auditor's knowledge. GAAS recognizes that the auditor's knowledge of the entity's transactions; its related assets, liabilities, and equity; and internal control is limited to that acquired through the audit but indicates that the auditor derives such knowledge from many sources. **(AU § 110.02)** For example, SAS 31, *Evidential Matter*, states:

> Corroborating evidential matter includes both written and electronic information such as checks; records of electronic fund transfers; invoices; contracts; minutes of meetings; confirmations and other written representations by knowledgeable people; information obtained by the auditor from inquiry, observation, inspection, and physical examination; and other information developed by, or available to, the auditor which permits him or her to reach conclusions through valid reasoning. **(AU § 326.17)**

This SAS further states that "evidential matter...obtained from independent sources outside an entity...provides greater assurance...than that secured solely within an entity" and the "independent auditor's direct personal knowledge, obtained through physical examination, observation, computation, and inspection, is more persuasive than information obtained indirectly." **(AU § 326.21)** Consequently, Mr. Tillett distorts the nature and relevance of the auditor's knowledge by characterizing it as "filtered."

Sufficiency and relevance of information obtained during an audit

Mr. Tillett further misstates GAAS by asserting that "GAAS explicitly places on management the responsibility to provide the auditors with sufficient and relevant information[4]...[and]...that management's obligation to disclose to the independent auditors sufficient and relevant information includes the obligation to: a) actively provide the independent auditors with information that directly supports management's assertions in the financial statements, b) actively provide the independent auditors with significant information that management considered[5] in concluding on an accounting treatment that on its face may lend support to an accounting treatment other than the treatment that

[3] Tillett report, page 18.
[4] Tillett report, page 19.
[5] According to Mr. Tillett, information that management has, but chooses to ignore, constitutes information considered by management.

management chose,[6] and c) provide the independent auditors with any other information that they may reasonably request."[7]

Mr. Tillett's assertion that management is responsible for providing the auditor with sufficient and relevant information reflects a misrepresentation of GAAS. As noted above, GAAS is silent as to management's obligations to the auditor and management's responsibility to disclose information that it considered in arriving at its financial statement assertions. Rather, the third standard of fieldwork requires *the auditor* to obtain "sufficient competent evidential matter…through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements." **(AU § 150.02)**

In that regard, SAS 31 is directly on point when it states:

> The independent auditor's objective is to obtain sufficient competent evidential matter to provide him or her with a reasonable basis for forming an opinion. *The amount and kinds of evidential matter required to support an informed opinion are matters for the auditor to determine in the exercise of his or her professional judgment after a careful study of the circumstances in the particular case… .* (emphasis added) **(AU § 326.22)**
>
> In evaluating evidential matter, the auditor…should be thorough in his or her search for evidential matter and unbiased in its evaluation. In designing audit procedures to obtain competent evidential matter, he or she should recognize the possibility that the financial statements may not be fairly presented in conformity with [GAAP]…. **(AU § 326.25)**

Mr. Tillett mistakenly uses the audit engagement letter to support his erroneous position that GAAS places on management the responsibility to provide the auditor with sufficient and relevant information. He asserts the following:

> …management's responsibilities are further established by the engagement letter that the independent auditor signs with his clients. While engagement letters vary in form, they almost always include language making management's cooperation in making available to the independent auditors all financial records and related information, a condition of their engagement to perform an audit. Based on my experience, the requirements to make all financial records and related information available to the independent auditors is synonymous with disclosing to them sufficient and relevant information.[8]

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[6] According to Mr. Tillett, "[c]onsideration of such information would allow the independent auditors a chance to determine the propriety of management's evaluation and weighing of seemingly contrary information."

[7] Tillett report, page 18.

[8] Tillett report, pages 19-20.

Mr. Tillett's assertion that making all financial records and related information available to the independent auditors is synonymous with disclosing to them sufficient and relevant information is off-base. It is predicated upon the equally erroneous assumption that it is management's responsibility to decide what is sufficient and relevant to the auditor. To the contrary, as noted above, it is the responsibility of the auditor to determine what is sufficient and relevant, and it is this determination that guides the auditor's design of the nature, timing and extent of audit procedures.

In summary, although evidential matter may include information and representations that the auditor obtains from management regarding the amounts and disclosures in the entity's financial statements, it is the auditor's responsibility to obtain the evidential matter that he or she determines is required to support the audit opinion. Contrary to Mr. Tillett's assertion, it is not management's responsibility to assess the sufficiency and relevance of evidential matter needed by the auditor. Quite simply, by contradicting well-established GAAS, Mr. Tillett's assertion reflects a basic misunderstanding of the auditor's responsibility in conducting an audit of financial statements.

Mr. Tillett "dips deep into the barrel" to come up with another rationale for absolving C&L from any culpability for its failed audits of AHERF's financial statements. He excerpts the following statement from SAS 31 to suggest cost constraints are another excuse for C&L's failure to obtain sufficient confident evidential matter:

> ...an auditor typically works within economic limits. As a result, the auditor's opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. The auditor must decide, again exercising professional judgment, whether the evidential matter available to him within the limits of time and cost is sufficient to justify expression of an opinion. [footnote omitted] In other words, an audit is never performed with unlimited resources.[9]

As with Mr.Tillett's other attempts to defend C&L's failed audits, this rationale fails as well based on the very SAS he cites in its support. Although the auditor should be cognizant of constraints in conducting the audit, SAS 31 stipulates that the matter of "difficulty and expense involved in testing a particular item is not in itself a valid basis for omitting the test." **(AU § 326.24)** In any event, Mr. Tillett provides no explanation or reason to believe that economic or any other constraints actually affected C&L's ability to conduct its audit of or report upon AHERF's financial statements in accordance with GAAS.

<u>Management's Representations</u>

Mr. Tillett blatantly mischaracterizes GAAS by asserting that management's representations are integral to conducting an audit and obtaining sufficient competent

[9] Tillett report, page 11.

evidential matter. To the contrary, SAS 19, *Client Representations*, and SAS 31[10] state just the opposite:

> During an audit, management makes many representations to the auditor, both oral and written, in response to specific inquiries or through the financial statements. Such representations from management are part of the evidential matter the independent auditor obtains, but they are *not a substitute* for the application of those auditing procedures necessary to afford a reasonable basis for his opinion on the financial statements. (emphasis added) **(AU § 333.02)**
>
> The auditor obtains written representations from management to *complement* his other auditing procedures. (emphasis added) In many cases, the auditor applies auditing procedures specifically designed to obtain corroborating information [evidential matter] concerning matters that also are the subject of written representations. **(AU § 333.03)**

Thus, Mr. Tillett has reversed the relationship between management's representations and sufficient competent evidential matter. Also, he has erroneously concluded that the management representation letter is a corroboration of the auditor's audit procedures when, in fact, the opposite is true; that is, the auditor performs audit procedures to corroborate *management's assertions* inherent in the financial statements.

Mr. Tillett further mischaracterizes the significance of management representation letters by asserting:

> The purposes of the representation letters are for management to affirm that all *sufficient and relevant information* has been provided to the independent auditors and to confirm the understanding of the independent auditors with respect to certain events and transactions.[11] (emphasis added)
>
> While the individual representations made in these letters are important elements of the independent auditors' procedures, the greater significance of these letters is the acceptance by management of its responsibilities to present the financial statements fairly in accordance with GAAP and to disclose *sufficient and relevant information* to enable the independent auditors to evaluate whether management has met that responsibility.[12] (emphasis added)

Contrary to Mr. Tillett's contention, Interpretation 3 of SAS 31 states:

> Written representations from management are *a part* of the evidential matter the auditor obtains in an audit performed in accordance with generally accepted auditing standards. (emphasis added) Management's representations about the completeness assertion, whether considered alone or in combination with the

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[10] As amended by SAS 48, *The Effects of Computer Processing on the Audit of Financial Statements*.
[11] Tillett report, page 19.
[12] Tillett report, page 19.

> auditor's assessment of control risk, *do not constitute sufficient audit evidence* to support that assertion. (emphasis added) Obtaining such representations *complements but does not replace* other auditing procedures that the auditor should perform. (emphasis added) **(AU § 9326.19)**

Accordingly, the management representation letter is simply one piece of evidential matter. It is not, however, a substitute for the application of necessary audit procedures.

Irregularities

SAS 53, *The Auditor's Responsibility to Detect and Report Errors and Irregularities,* defines irregularities as, among other things, "fraudulent financial reporting undertaken to render financial statements misleading, sometimes called *management fraud....* Irregularities may involve acts such as the following:

- Manipulation, falsification, or alteration of accounting records or supporting documents from which financial statements are prepared

- Misrepresentation or intentional omission of events, transactions, or other significant information

- Intentional misapplication of accounting principles relating to amounts, classification, manner of presentation, or disclosure"

(AU § 316A.03)

Mr. Tillett erroneously attributes C&L's audit failures to such irregularities by AHERF'S management rather than C&L's failure to properly plan and perform its audits in accordance with GAAS. Mr. Tillett further suggests that the "skillfulness of the perpetrator" and the "extent of manipulation" somehow relieve the auditor of his responsibilities under GAAS.[13] To the contrary, although SAS 53 acknowledges that a properly-designed and executed audit may not detect a material irregularity, the SAS nonetheless requires the auditor to "exercise (a) due care in planning, performing and evaluating the results of audit procedures, and (b) the proper degree of professional skepticism *to achieve reasonable assurance that material errors or irregularities will be detected.*" **(AU § 316A.08)** Furthermore, "[b]ecause irregularities are intentional, they have implications beyond their direct monetary effect and the auditor needs to consider the implications for other aspects of the audit." **(AU § 316A.22)**

However, Mr. Tillett fails to acknowledge the auditor's specific responsibilities under GAAS and mistakenly asserts that C&L's failures to detect misstatements in AHERF's financial statements was largely attributable to "irregularities by management to intentionally misstate the financial statements."[14] In other words, according to Mr. Tillett, C&L's audit failures were somehow "excusable" because of management's alleged misrepresentations and/or omissions.

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[13] Tillett report, page 21.

[14] Tillett report, page 22.

To the contrary, GAAS does not support such an assertion. In particular, SAS 53 requires the auditor to "assess the risk that errors and irregularities may cause the financial statements to contain a material misstatement. Based on that assessment, the auditor should design the audit to provide reasonable assurance of detecting errors and irregularities that are material to the financial statements." **(AU § 316A.05)** Furthermore, paragraph 3 of the Appendix to SAS 53 indicates that the "detection of an irregularity [such as the improper transfer of reserves] requires consideration of the implications for the integrity of management or employees and the possible effect on other aspects of the audit." **(AU § 316A.34)**

Furthermore, Mr. Tillett fails to explain how any management misrepresentation and/or omission precluded C&L from detecting specific material misstatements that even he acknowledges were contained in AHERF' financial statements. In my opinion, the alleged misrepresentations and/or omissions discussed by Mr. Tillett did not preclude C&L from conducting its audit in accordance with GAAS. There is no evidence from the documents or testimony I have reviewed that management falsified documents or otherwise made it impossible, or even difficult, to conduct its audits in accordance with GAAS.

In conclusion, it is my opinion that neither actions of management to mislead nor failures to disclose certain information to the auditor relieves the auditor from its responsibility under GAAS. Therefore, Mr. Tillett's assertion that "C&L was precluded in its ability to detect material misstatements in connection with its audits"[15] as a result of management irregularities is erroneous.

Other matters involving mischaracterization or misstatement of GAAP and GAAS

In addition to its mischaracterization and/or misstatement of the responsibilities of the auditor and management in connection with an audit in accordance with GAAS, Mr. Tillett's report contains additional errors in the application and/or interpretation of GAAP and GAAS with respect to the following:

- Materiality, including materiality measures and the Summary of Unadjusted Differences ("SUD")

- Communications with the Audit Committee

- Prior period adjustments

The following section presents my comments and conclusions regarding those matters.

[15] Tillett report, page 5.